98-

S. HRG. 595

# IMPOSING SPECIFIC DIRECTIVES ON THE BONNEVILLE POWER ADMINISTRATION

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## HEARINGS

BEFORE THE

## COMMITTEE ON ENERGY AND NATURAL RESOURCES UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

## S. 1701

A BILL TO IMPOSE SPECIFIC DIRECTIVES ON THE BONNEVILLE POWER ADMINISTRATION

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WASHINGTON, D.C., AUGUST 3, 1983
SEATTLE, WASH., SEPTEMBER 9, 1983

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# IMPOSING SPECIFIC DIRECTIVES ON THE BONNEVILLE POWER ADMINISTRATION

WEDNESDAY, AUGUST 3, 1983

U.S. SENATE,
COMMITTEE ON ENERGY AND NATURAL RESOURCES,
*Washington, D.C.*

The committee met, pursuant to notice, at 2 p.m., in room SD-366, Dirksen Office Building, Hon. James A. McClure, chairman, presiding.

Present: Senators McClure, Jackson, Bumpers, Metzenbaum, Gorton, Baucus, and Congressman Chandler.

Also present: Gary Ellsworth, deputy chief counsel—natural resources; and Craig Gannett, counsel for the minority.

## OPENING STATEMENT OF HON. JAMES A. McCLURE, A U.S. SENATOR FROM THE STATE OF IDAHO

The CHAIRMAN. First, let me apologize to the members and to the witnesses and all those interested in this hearing for being late, but we, as you know, have the same matter pending on the floor on the Interior Appropriations bill.

There are two votes on the quorum and then upon cloture a vote on Radio Martee. If that cloture is invoked, we will not return to the consideration immediately of the appropriations bill on the floor. It was important for us to know where we were going to be.

I anticipate—although I am not certain—that the cloture will be invoked. It looked that way as I was leaving. If so, we will not be interrupted.

This is a hearing on S. 1701, a bill to impose specific directives on the Bonneville Power Administration. My colleagues, Senator Jackson, Senator Baucus, Senator Gorton, and Senator Simms, joined me last week in introducing this measure which is identical to Section 317 of H.R. 3363, the Department of the Interior and Related Agencies Appropriation Bill for 1984, as reported by the Senate Appropriations Committee.

In the interest of time, I will insert the balance of my remarks in the record at this point. As a part of those remarks is included a letter dated August 1, 1983, from the Deputy Secretary of the Treasury supporting the language of an amendment and the bill as amended.

I will also insert statements from Senator Hatfield and Senator Baucus and the text of S. 1701 at this point.

[The material referred to follows:]

## STATEMENT OF SENATOR McCLURE

Good afternoon Ladies and Gentlemen. This is a hearing on S. 1701, a bill to impose specific directives on the Bonneville Power Administration. My colleagues Senator Jackson, Senator Baucus, Senator Gorton and Senator Symms joined me last week in introducing this measure which is identical to Section 317 of H.R. 3363, the Department of the Interior and Related Agencies Appropriation Bill for 1984, as reported by the Senate Appropriations Committee. The report accompanying H.R. 3363 contains language approved by the Appropriations Committee providing the limitations and directives intended to be imposed upon the Bonneville Power Administration. I would like to clarify at this point, that introduction of this bill does not in any way prejudice or compromise the sponsors' belief that the inclusion of the identical language in H.R. 3363 is appropriate under the rules and practice of the Senate and the express terms of Section 11(b) of the Federal Columbia River Transmission Act which states that BPA expenditures are subject to "specific directives and limitations ... included in appropriations acts." 16 U.S.C. 838i(b). It was my intention that the bill be introduced to provide an opportunity for the Energy and Natural Resources to hold a hearing on the proposal.

In the past few weeks the media has focused a great deal of attention on the WPPSS situation and on efforts mounted by myself and other Northwest Senators to develop a responsible means of maintaining the construction schedules of those plants in which there is a Federal interest by virtue of net-billing agreements which BPA has with the project participants. These plants include WPPSS No. 2 and No. 3. It is important to differentiate the interest in these plants from the other WPPSS projects -- namely No. 4 and No. 5 -- in which there is no direct Federal interest. I say direct because we all must be concerned about the effect of the recently announced default by WPPSS on its ability to make payments on bonds issued for WPPSS No. 4 and No. 5. That situation is of great concern not only within the region for public entities seeking to finance

CAPITAL EXPENDITURES, BUT FOR SIMILAR ENTITIES THROUGHOUT THE NATION. THE EFFECT OF THE DEFAULT HAS AND WILL HAVE ON PRIVATE INVESTORS, MANY OF WHOM ARE PRIVATE INDIVIDUALS, IS CAUSE FOR ALARM AMONG US ALL.

HOWEVER, AS I SAID, THIS LEGISLATION DOES NOT ATTEMPT TO SOLVE THAT PROBLEM. IT RELATES ONLY TO WPPSS NO. 1, NO. 2, AND NO. 3 IN WHICH THE REGION HAS AN INTEREST IN MAINTAINING VIABLE SOURCES OF POWER. WPPSS NO. 1 IS CURRENTLY IN A PRESERVATION STATE. IT IS NOT ANTICIPATED TO BE NEEDED UNTIL 1991. WPPSS NO. 2 IS CURRENTLY 98% COMPLETE AND IS SCHEDULED TO BE OPERATIONAL IN EARLY 1984 AND WILL BEGIN GENERATING NOT ONLY POWER BUT REVENUES IN THAT TIME FRAME. WPPSS NO. 3 IS 78% COMPLETE AND WAS SCHEDULED TO BE COMPLETED IN EARLY 1986. HOWEVER, THE INABILITY OF WPPSS TO OBTAIN CONVENTIONAL FINANCING, DUE TO THE SPILLOVER EFFECT OF ITS PROBLEMS WITH UNITS NO. 4 AND NO. 5 HAS NECESSITATED A RAMP-DOWN OF ACTIVITY FOR UNIT NO. 3 EVENTUALLY PLACING IT IN A PRESERVATION MODE.

THE FORCED DECISION TO PRESERVE UNIT NO. 3 HAS IMMEDIATE ADVERSE CONSEQUENCES. PERHAPS FOREMOST IS THE LOSS OF 3,000 JOBS IN THE STATE OF WASHINGTON, WHICH LIKE OTHER STATES IN THE NORTHWEST, CAN ILL AFFORD MORE UNEMPLOYMENT. SECOND, IF NO FORESEEABLE ALTERNATIVE FOR FURTHER FINANCING OF WPPSS NO. 3 BECOMES AVAILABLE IN THE NEAR TERM, EXPERIENCED PERSONNEL NEEDED TO COMPLETE THE PLANT MAY BE LOST FOREVER. THIRD, IF THE BONDHOLDERS OF THE NET-BILLED PLANTS DO NOT HAVE SOME REASONABLE ASSURANCE IN THE NEAR FUTURE THAT THEIR INTERESTS ARE PROTECTED THROUGH EVENTUAL COMPLETION OF THE PROJECTS, THE LEGAL AND INVESTMENT CLIMATE MAY BECOME ONE IN WHICH FINANCING IS EVEN MORE DIFFICULT, EXPENSIVE, OR IMPOSSIBLE. THE RATEPAYERS OF THE REGION MUST ALSO BE CONCERNED ABOUT NOT COMPLETING WPPSS NO. 1, NO. 2 AND NO. 3 AS EXPEDITIOUSLY AS POSSIBLE AND AT THE LEAST POSSIBLE COST. THE 20 YEAR POWER PLAN ADOPTED BY THE NORTHWEST PLANNING COUNCIL CLEARLY SHOWS A NEED FOR ALL THREE OF THE NET-BILLED PLANTS WITHIN A DECADE. CURRENT SURPLUS WILL NOT LAST FOREVER. OPPORTUNITIES FOR THE SALE OF ANY SURPLUS WHICH MAY EXIST ARE BEING AGGRESSIVELY PURSUED. THE LEAD TIME INVOLVED IN POWERPLANT CONSTRUCTION IS

VERY LENGTHLY. UNLESS A METHOD TO FINANCE THAT CONSTRUCTION IS PROVIDED NOW, RATEPAYERS MAY END UP WITH THE WORST OF ALL RESULTS -- 3 DRY HOLES, A MULTI-BILLION DOLLAR DEBT WHICH THEY MUST PAY, AND A SHORTAGE OF POWER.

AT THIS POINT I WOULD LIKE TO BRIEFLY SUMMARIZE THE COMBINED EFFECT OF THE PROPOSED STATUTORY LANGUAGE AND THE ACCOMPANYING REPORT LANGUAGE. I WILL ALSO CLARIFY FOR THE RECORD SOME IMPORTANT POINTS WHICH ARE NOT AUTHORIZED BY THIS BILL. FIRST, THE STATUTORY LANGUAGE CLARIFIES BPA'S AUTHORITY TO ENTER INTO ALTERNATIVE FINANCING AGREEMENTS FOR CONSTRUCTION OF WPPSS NO. 2 AND NO. 3. THE FINANCING ALTERNATIVE WOULD UTILIZE AN APPROPRIATE ENTITY OR ENTITIES ESTABLISHED PURSUANT TO STATE LAW. FINANCING COULD BE FROM BONDS, NOTES, OR OTHER EVIDENCES OF INDEBTEDNESS. THE REPORT LANGUAGE PROVIDES THE FOLLOWING SIX DIRECTIVES AND LIMITATIONS UNDER WHICH BPA MAY USE THE AUTHORITY. FIRST, A CONDITION PRECEDENT THAT A SCHEDULE FOR THE CONSTRUCTION OF WPPSS NO. 3 BE AGREED UPON. SECOND, A DIRECTIVE THAT THE AUTHORITY BE USED IN A PRUDENT AND BUSINESS-LIKE MANNER. THIRD, A REQUIREMENT THAT THE EFFECTS OF THE TERMS OF THE FINANCING ON THE RATEPAYERS BE CONSIDERED. FOURTH, A PROHIBITION ON BPA INCURRING A LIABILITY FOR WPPSS NO. 4 AND NO. 5 OR THE PRIVATE OWNERSHIP IN WPPSS NO. 3. FIFTH, A REQUIREMENT TO CONSIDER THE NEW FINANCING IN RELATIONSHIP TO THE COST OF OTHER VIABLE ALTERNATIVES FOR GENERATING RESOURCES AND THE COST OF TRADITIONAL FINANCING THROUGH WPPSS. AND FINALLY, A REQUIREMENT THAT THE APPROPRIATIONS COMMITTEES OF THE SENATE AND HOUSE RECEIVE ALL CONTRACTS PROPOSED TO BE ENTERED INTO 30 DAYS PRIOR TO THEIR EXECUTION. IN ADDITION ALL COSTS ASSOCIATED WITH THE AGREEMENTS WILL BE REFLECTED IN BPA'S BUDGET SUBMISSIONS TO CONGRESS.

THIS PROPOSAL DOES NOT AUTHORIZE BPA TO SEEK APPROPRIATED FUNDS, NOR DOES IT ALLOW BPA TO BORROW FUNDS FROM THE FEDERAL TREASURY OR ANY OTHER SOURCE. IN NO WAY DOES IT EXTEND THE FULL FAITH AND AND CREDIT OF THE UNITED STATES TO FINANCING AGREEMENTS ENTERED INTO BY BPA. THE PROPOSAL WILL NOT AUTHORIZE BPA TO ESTABLISH THE NEW ENTITY OR ENTITIES REFERRED TO IN SECTION 317 OF H.R. 3363 AND IN S. 1701. SUCH ENTITY OR ENTITIES MUST BE ESTABLISHED BY A NON-FEDERAL PARTY PURSUANT TO STATE LAW.

At the time this proposal is considered by the Senate, I will offer language which will clarify that which I believe is certain under the existing statute, that the full faith and credit of the United States is in no way pledged to the repayment here, and that it is the intent of the legislation to make the ratepayers bear all costs associated with the project. I would like to submit for the Record a letter dated August 1, 1983, from the Deputy Secretary of the Treasury, R. T. McNamar, supporting this language.

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

August 1, 1983

Dear Mr. Chairman:

The situation at Washington Public Power Supply System is complicated and its resolution is important to the long-term power needs of the Pacific Northwest. Treasury is anxious to work with the Congress to provide clarifying legislation to facilitate the completion of WPPSS Units 2 and 3. We share your sense of urgency in developing a solution that meets the needs of all parties, avoids a bailout of the creditors and equity holders, and minimizes Federal Government outlays.

Treasury has reviewed Section 317 of H.R. 3363 as reported by the Senate and S. 1701, which contemplates that ratepayers in the region that receive the power generated by WPPSS Units 2 and 3, and not the federal government, would be responsible for paying all costs associated with these two plants. This legislation would permit the Bonneville Power Administration ("BPA") to contract with a newly created entity to pay the principal and interest due on securities issued in the public credit markets by that new entity. This new authority would be used to enable completion of the two nuclear power plants (WPPSS Units 2 and 3). Treasury believes that it is important to assure investors and all those concerned with this matter that the intent of the legislation is not to extend federal involvement. Clarity here will help to avoid creating confusion about the intent of this provision. In our view, this purpose can best be secured if the modifications recommended below are adopted. Subject to these modifications, Treasury does not object to the proposed legislation.

First, since Treasury understands that the intent of the legislation is to make the ratepayers bear all costs associated with this project, Treasury believes an amendment that clarifies that intent is highly desirable. Such a clarifying amendment is enclosed herewith. The intent of this additional language, and of the legislative history language described below, is to ensure that no federal funds, in the form either of borrowings from Treasury or of appropriations, be used to complete the two nuclear power plants.

Second, to clarify this position, the following language should be added either in the Conference Report discussing this provision or in clarifying statements during consideration of this legislation:

> The Congress specifically intends that all of BPA's costs associated with the new financing for WPPSS #2 and #3 be recovered in BPA's rates by both BPA and FERC. Thus all funds needed to pay all costs associated with completion of these plants will be borne solely by the ratepayers, and the Administrator may not use funds from appropriations or from the issuance of securities to the Secretary of the Treasury pursuant to 16 U.S.C. 838k(a) to pay for any of the costs associated with completing WPPSS #2 and #3. Further, by incorporating by reference the limitations and restrictions set forth in 16 U.S.C. 839d(j)(1), Congress intends that any contract entered into by BPA shall be secured solely by revenues received by the Administrator from the sale of electric power and other services and that any such contracts or obligations are not, and shall not be construed to be, secured by the full faith and credit of the United States.

If these two conditions are met, the Office of Management and Budget has advised that there is no objection to Section 317 of H.R. 3363 as reported by the Senate and S. 1701 from the standpoint of the Administration's program.

Sincerely,

R. T. McNamar
Deputy Secretary

The Honorable
James A. McClure
Chairman
Senate Subcommittee on Interior
and Related Agencies
United States Senate
Washington, D.C. 20510

Opening Statement
by: Senator Mark O. Hatfield
ENERGY AND NATURAL RESOURCES COMMITTEE HEARING
August 3, 1983

RE: S. 1701

The Washington Public Power Supply System nuclear construction program has embroiled the Pacific Northwest region for nearly a decade now and recently has received national attention with the $7.0 billion default of the final two stages of the project, WPPSS plants 4 and 5. Although some in the region are hoping for a federal government solution to the myriad of difficulties facing WPPSS, in my judgment, there will be no political solution or bail-out of WPPSS 4 and 5 or the other three net-billed plants. There are several reasons why.

First, the BPA is not now involved in, nor should they be, ~~in~~ the termination of WPPSS plants 4 and 5, except as an escrow agent. As I have said before, the decision to terminate WPPSS 4 and 5 and sell its assets should move forward as planned. Further, the Northwest Power Planning Council has already decided to exclude plants 4 and 5 from the 20-year power plan. I believe this decision was justified and appropriate and that it should not be altered.

The financial obstacles confronting the completion of the remaining "net-billed" facilities, particularly WPPSS 2 and 3, are the major focus of our hearing today. I commend

Senator McClure for calling this hearing and for his leadership in addressing one of the most pressing issues confronting the region. We must carefully review the desirability and need to continue construction on WPPSS #3 and the pace of that renewed construction. In my judgment, we must be very careful in adopting any action that could increase the federal involvement or expand the federal liability in the net-billed plants. The future economic health of the region and the financial security of the BPA ratepayers are at stake in this complex issue. Despite the significance of this legislation to numerous regional power interests, however, considerable disagreement exists regarding the merits of this proposal.

It is my strong view that while a regional solution is the only responsible approach, the lack of a consensus within the region makes it ill-advised to proceed with an alternative financing scheme at this time. Moreovoer, the proponents of this plan must work with the members of the pertinent Committees of the House of Representatives which will have to approve this type of legislation. These key Congressmen must be counseled and informed of the history behind the WPPSS situation and the importance and implications of creating an alternative financing entity. And finally, before such an alternative financing plan is approved by the Congress, a more precise determination must be made as to the impact on BPA ratepayers. Any plan must be the most cost-effective alternative available to the region. There must be assurances that any increase costs will not create such onerous financial burdens on the ratepayers so as to slow the progress of regional economic recovery.

Again, I thank Senator McClure and the Committee for showing such strong interest in this problem, and join them in seeking a regional solution to this important and critical problem.

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STATEMENT OF SENATOR MAX BAUCUS
BEFORE THE ENERGY AND NATURAL RESOURCES COMMITTEE
BPA DIRECTIVES
August 3, 1983

Senator McClure, members of the Committee, I want to thank you for permitting me to participate in today's hearing. I would like to personally thank Senator McClure for taking the lead on this critical issue.

I, too, am deeply concerned about what would happen if WPPSS 3 fails. I would like to say just a few words about my goals and priorities as we approach this problem, and the proposed legislation.

First, I support completing WPPSS 3. In my view, we should not abandon a project that is 76 percent complete. That would be throwing away public and private money.

But I will not support completion at any cost. My goal is to find a fair solution to the financial problems facing WPPSS.

And, I want this problem to be resolved in the open, in full view of the public.

Secondly, I want to ensure that ratepayers get a fair shake. Since 1979, utility rates in Western Montana have increased at least fivefold, and in some cases twelvefold. These increases were needed to cover the operation and debt service costs of WPPSS 1,2, and 3.

These rate hikes have been mirrored throughout the Pacific Northwest.

I don't believe the economy of Montana or any other state in the region can continue to absorb such enormous rate increases.

The aluminum industry is slowing recovering from a worldwide recession. How will this bill affect direct service customers? Will it enhance the recovery or throttle it?

## Recommendations

It is my belief that certain additional safeguards are needed to make a workable bill. We need to ensure that this money actually solves the problem. I would like to ask that consideration be given to setting up an independent bond council with broad authority to ensure that monies generated by these bonds will in fact complete WPPSS 3 in a cost-effective manner.

This bill gives BPA the authority to contract directly with WPPSS. What financial obligations would this arrangement place on the people of the Pacific Northwest?

The financial problems and cost overruns of the WPPSS projects are well-documented. WPPSS has not demonstrated that they can run such projects in a cost-efficient manner.

What guarantee do we have in this bill that WPPSS can complete No. 3 in a cost-efficient manner?

Before we go ahead any further, BPA should be forced to reevaluate existing contracts. BPA should make sure that escalation clauses and the terms of construction are in the

PUBLIC INTEREST.

I DON'T WANT US TO COMPLETE THE LAST 24 PERCENT OF NO. 3 AT 50 PERCENT OR MORE OF THE TOTAL COST FOR NO. 3 BECAUSE WE HAVE FAILED TO ADD SUFFICIENT SAFEGUARDS TO THE BILL.

THE INDEPENDENT BOND COUNCIL THAT I HAVE RECOMMENDED SHOULD BE DIRECTLY RESPONSIBLE TO BPA.

THIS COUNCIL WOULD DETERMINE WHETHER ANY BONDS TO BE ISSUED ARE IMMUNE FROM LEGAL ACTION AFFECTING WPPSS 4 OR 5. ONLY IF IT IS DETERMINED THAT THESE MONIES ARE IMMUNE SHOULD THE BONDS BE ISSUED. I CANNOT SUPPORT A BAIL-OUT FOR CHEMICAL BANK.

THE PUBLIC HAS LOST FAITH IN THE ABILITY OF WPPSS TO MANAGE THE CONSTRUCTION OF NUCLEAR POWER PLANTS. I SHARE THIS GENERAL CONCERN. THE BOND COUNCIL SHOULD RECOMMEND WAYS TO GUARANTEE THE QUALITY OF WORK, LIMIT COST OVERRUNS, AND WHERE NECESSARY, RENEGOTIATE EXISTING CONTRACTS.

QUESTIONS CONCERNING THE EFFECTIVENESS OF THESE BONDS IN SOLVING THE DILEMMA NEED TO BE ADDRESSED BEFORE DOLLARS ARE EXPENDED. THE BOND COUNCIL WOULD RECOMMEND WAYS TO MAKE SURE A PROPOSED BONDING AUTHORITY IS ACTUALLY A SOLUTION TO THE PROBLEM.

ALL THESE RECOMMENDATIONS SHOULD BE MADE TO CONGRESS -- BEFORE BONDS ARE ISSUED.

FINALLY, MR. CHAIRMAN, AS YOU KNOW I HAVE OFTEN BEEN CRITICAL OF BPA. I OPPOSED ENERGY SECRETARY HODEL'S NOMINATION BASED ON HIS RECORD AS ADMINISTRATOR OF BPA. AND, I HAVE BEEN INVOLVED FOR SEVERAL YEARS IN RESOLVING THE DIFFICULTIES WITH

BPA's powerline through Western Montana.

I have learned one critical lesson in all of this. Too often, BPA has not been open and forthcoming in its activities.

Too often, BPA has made decisions without listening to the views of those people most seriously affected by those decisions.

I will not let that happen here.

I am pleased that the Energy Committee is conducting this hearing. WPPSS 3 is an important component of the Energy and Conservation Plan adopted by the Northwest Power Planning Council.

I am committed to giving this plan an opportunity to work, and I hope we can develop a way to complete WPPSS 3.

II

98TH CONGRESS
1ST SESSION

# S. 1701

To impose specific directives on the Bonneville Power Administration.

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IN THE SENATE OF THE UNITED STATES

JULY 28 (legislative day, JULY 25), 1983

Mr. MCCLURE (for himself, Mr. JACKSON, Mr. BAUCUS, Mr. GORTON, and Mr. SYMMS) introduced the following bill; which was read twice and referred to the Committee on Energy and Natural Resources

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# A BILL

To impose specific directives on the Bonneville Power Administration.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That in the manner described in the Senate committee report, the Administrator of the Bonneville Power Administration, in addition to making payments from rates for the cost of construction, may enter into contractual agreements pursuant to his authority under sections 832a(f), 839f(a), 838i(b) of title 16, United States Code, and this Act, to pay, or secure payment of, costs associated with the Federal base system resources as defined in section 839(10)(B) of said title by paying such costs directly to an appropriate entity or entities, the primary obligees of such entity or entities, or their trustee.

○

The CHAIRMAN. Senator Jackson.

## STATEMENT OF HON. HENRY M. JACKSON, A U.S. SENATOR FROM THE STATE OF WASHINGTON

Senator JACKSON. Mr. Chairman, I will just refer to portions of my remarks, and try to hit the high points.

The fundamental purpose of the legislation which is before this committee is to prevent a $2 billion disaster from becoming an $8 billion disaster from which the Northwest and the Nation's municipal bond market might not recover for decades.

It only makes sense to complete these projects so that they can generate electricity and revenues from power sales to help retire the debts that have been incurred.

Mr. Chairman, I want to make clear that I am under no illusions that this legislation is a comprehensive solution to the region's WPPSS-related problems. This legislation addresses a relatively narrow aspect of those problems.

The Governors of the States of Washington and Oregon have appointed a blue ribbon panel consisting of Charles F. Luce, Edward Carlson, and Judge Herbert Schwab to review this entire matter. This panel has been asked to make recommendations to the Governors, to the Congress, and the administration about what should be done to resolve the WPPSS situation.

I think the Governors have chosen a strong group with the requisite expertise and credibility to handle this task. The panel is to report its findings and recommendations by October 6. Because WPPSS is an agency of the State of Washington, I would anticipate that action on any proposal to resolve WPPSS problems would require approval by the Washington State legislature.

At the same time, the panel will probably make recommendations involving Federal legislation. I can assure you that I will make every effort to assure that such recommendations of the blue ribbon panel will receive serious attention by the Congress.

Mr. Chairman, I commend you for undertaking these hearings, and I wish to assure you that I will do everything I can to work with you and other members of the committee and groups, of course, from the entire Pacific Northwest, to resolve these problems.

I ask that the balance of my statement be included at this point in the record.

[The prepared statement of Senator Jackson follows:]

## STATEMENT OF HON. HENRY M. JACKSON, A U.S. SENATOR FROM THE STATE OF WASHINGTON

Mr. Chairman, I want to commend you for calling this hearing so that the Committee can receive testimony on the urgent situation in the Northwest having to do with financing further construction on the net-billed WPPSS projects.

Mr. Chairman, the nation has become aware of the $2 billion disaster which has befallen the non-federal WPPSS projects 4 and 5. That situation has made it impossible for WPPSS to borrow to finance completion of the net-billed projects 1,2, and 70% of 3 in which the Bonneville Power Administration has an interest as the assignee of project capability of the non-federal publicly owned utility participants.

The fundamental purpose of the legislation which is before this Committee is to prevent a $2 billion disaster from becoming an $8 billion disaster from which the Northwest and the Nation's municipal bond market might not recover for decades. It only makes sense to complete these projects so that they can generate electricity and revenues from power sales to help retire the debts incurred.

In recent testimony before the House Interior Committee, the Northwest Power Planning Council stated that if any of the net-billed WPPSS plants are not built, "additional thermal resources will be needed to replace the lost WPPSS plants." The council estimated that the cost to complete the three WPPSS plants expressed as levelized cost of energy would be about half the cost of building coal plants of equivalent output.

Mr. Chairman, I ask that an excerpt from the testimony of Mr. Robert Saxvik, Vice Chairman of the Northwest Power Planning Council before the House Interior Committee's Subcommittee on Mining, Forest Management, and the Bonneville Power Administration be included in the Record at the conclusion of my remarks. Mr. Saxvik's testimony was delivered June 10, 1983. It relates to the Council's view on the need for and cost effectiveness of the net-billed WPPSS projects.

Having said that it is my belief that it is in the best interest of the region and the region's ratepayers to finish these projects I want to make it clear that I understand that there is a substantial issue as to the appropriate schedule for completing those plants. This is matter about which additional information will soon become available as BPA will soon complete and publish its newest regional load forecast and an analysis of the rate impacts under various financing and construction scenarios. It is my view that any legislation which deals with reestablishing the ability to finance construction of the net-billed projects must afford protections to regional ratepayers to assure that costs and risks of further construction will not be incurred earlier than is prudent to do so.

Finally, I want to make it clear that I am under no illusions that this legislation is a comprehensive solution to the regions' WPPSS related problems. This legislation addresses a relatively narrow aspect of those problems.

The governors of Washington and Oregon have appointed a blue ribbon panel including Charles F. Luce, Edward Carlson, and Judge Herbert Schwab. This panel has been asked to make recommendations to the governors, to the Congress, and to the Administration about what should be done to resolve the WPPSS situation.

I think the governors have chosen a strong group with the requisite expertise and credibility to handle this task. The panel is to report its findings and recommendations by October 6. Because WPPSS is an agency of the State of Washington, I would anticipate that action on any proposal to resolve WPPSS problems would require approval by the Washington Legislature. At the same time, the panel will probably make recommendations involving federal legislation. I can assure you I will make every effort to assure that any such recommendations of the blue ribbon panel will receive serious attention by the Congress.

Mr. Chairman, may I again commend you for undertaking these hearings and assure you that I will do everything I can to work with you, other members of the Committee, and groups from the NOrthwest to resolve these problems.

Excerpt from testimony by Mr. Robert Saxvik, Vice
Chairman, Northwest Power Planning Council. June 10, 1983
before House Interior Subcommittee on Mining, Forest
Management, and the Bonneville Power Administration.

## Impact of Changes in WPPSS 1, 2, and 3 Schedules on the Plan

In all cases evaluated by the Council, the three WPPSS projects (1, 2, and 3) were assumed to be completed and operated. This assumption was made because under the Regional Power Act, these resources were previously acquired and were therefore not new resources for inclusion in the Plan. Nevertheless, the Council did evaluate the cost to complete each of the WPPSS projects and compared these costs with the cost estimates available for new thermal generation. The conclusions are rather dramatic. When estimated on a consistent basis, in constant 1980 dollars on costs expended as of December 1983, the costs to complete the three WPPSS plants expressed in levelized costs of energy are 3.0 cents per kilowatt hour for Plant 1; 1.8 cents per kilowatt hour for Plant 2; and 2.5 cents per kilowatt hour for Plant 3. All of these costs are significantly lower than the estimated 4.7 cents per kilowatt hour for a new coal plant. The cost to complete these three plants is also cheaper than all of the cogeneration and some of the hydroelectric power and conservation included in the Council's Plan.

The Council's plan included in the high load case an additional 5,100 megawatts of conservation, 920 megawatts of new hydro, 500 megawatts of cogeneration, 1,000 megawatts of combustion turbines, and the construction of nine new 356 megawatt coal units in order to balance the forecasted resource requirements over the next twenty years. In the medium-high forecast, three coal units are needed to supplement conservation, hydro power and cogeneration. There was no additional thermal needed in either the medium-low or low load forecast developed by the Council.

In the short time available since we received this subcommittee's question, the Council has done a preliminary evaluation of the impact on system reliability of slipping Plants 1 and 3 an additional three years. The analysis and following discussion address only the changes in resource schedules which would be required to maintain system reliability. Insufficient time was available to investigate the impact on resource costs and on electricity rates, but it is likely to be substantial, especially in the case of termination of both WPPSS 1 and 3. The Council also has not had time to consult with other parties or seek public comment on this preliminary analysis. Table 1 illustrates the effect of the slip for each of the Council's four load forecast scenarios and under assumptions of either slipping the two plants three years or terminating the plants at this time. Shown on the table are the additional requirements for thermal resources in the region. The table shows that if WPPSS 1 and 3 are terminated, four additional coal units will be needed in both the high and medium-high forecasts. In the medium-low forecast, two additional coal units would be necessary, and in the low forecast, no additional coal units would be necessary since the region would have sufficient conservation to meet the low load forecast.

The Council has estimated that the probability of either the high or the low load forecasts developing is quite small with the medium-high and medium-low forecasts being much more likely. For this reason it appears that if WPPSS 1 and 3 are terminated, additional thermal resources will be needed in order to replace the lost WPPSS plants. As was mentioned previously, the replacement thermal resource is likely to be new coal generation which is far more expensive on a cost to complete basis than the existing WPPSS 1 and 3 plants.

The Council's analysis of the impact on the plan of slipping WPPSS 1 and 3 shows that there is no change in the action items identified in the plan over the next two years. In the first revision of this plan (December 1985), modifications may be necessary in order to increase the penetration rates of conservation in all sectors and to begin to prepare for the optioning of additional thermal resources. In every case evaluated, the slippage of the WPPSS plants can be accommodated through rescheduling resources, both conservation and hydro, earlier than they were originally scheduled in the Council's plan. As long as WPPSS 1 and 3 are ultimately completed, a three year slip has little impact on the Council's resource plan other than the need to accelerate conservation program development. However, if WPPSS 1 and 3 are terminated, additional thermal resources will be needed in the medium-low, medium-high and high load forecasts. In the high forecast, assuming WPPSS 1 and 3 are terminated, the first coal unit would be needed on line in 1996. This means that a coal option would need to be initiated in 1986 and would be a part of the first revision of this plan.

Because of the relative cost of completing WPPSS 1, 2, and 3 in comparison to building new thermal resources, a termination of these plants would eventually result in the region having to build more costly thermal resources as replacement. The expenditures that have already been made on WPPSS 1, 2, and 3 (approximately 6.5 billion dollars) will be repaid in any case.

## TABLE I

## Changes to Thermal Resource Schedules

| CASE | Start up Date of First Coal Unit | No. of Coal Units | |
|---|---|---|---|
| | | Total | Change |
| High with slip of 1 & 3[1] | 1998 | 9 | 0 |
| High with termination[2] | 1996 | 13 | 4 |
| MH with slip[1] | 2001 | 3 | 0 |
| MH with termination[2] | 1998 | 7 | 4 |
| ML with slip[1] | -- | 0 | 0 |
| ML with termination[2] | 2001 | 2 | 2 |
| Low with slip[1] | -- | 0 | 0 |
| Low with termination[2] | -- | 0 | 0 |

1. Assumes WPPSS #3 comes on line in 1990 and WPPSS # 1 comes on line in 1994.
2. Assumes that WPPSS #1 and #3 are not completed.

The **Chairman**. Thank you Senator Jackson. I appreciate the measured and wise words which you have given. I think it does outline the kind of dilemma that we have as we struggle toward some kind of a solution that is primarily of interest to the people of the Northwest, because the primary bills will be paid in the Northwest, and it has implications for the bond market and for the bondholders across this country.

This is not a complete solution to all of those problems, but it pens in the direction of a solution and it can only make the situation better; it cannot possibly make the situation worse in spite of the rhetoric from some people who persist in misstating facts and demagoging the issue and misstating both law and the record.

I will not go further at this time because I understand that there may be some desire on the part of at least one member of the committee to make an opening statement, and we have others who also have indicated a desire to make a statement at the beginning.

However, I also understand the necessity of getting forward with the hearing, and without waiting for those other Members of the Senate who wish to appear, I wish to honor the Honorable John Spellman, the Governor of Washington, who I understand has a time problem. I am very grateful for his leadership in this area, his willingness to come at relatively short notice across the country to testify at a hearing which is of great importance to his State and of only slightly less importance to mine.

Governor Spellman, you are very welcome to this committee.

## STATEMENT OF HON. JOHN SPELLMAN, GOVERNOR, STATE OF WASHINGTON

Governor **Spellman**. Thank you, Mr. Chairman and Senator Jackson. Let me congratulate you for bringing this matter to your colleagues' attention. I have printed copies of my remarks, and I will not repeat those remarks.

I would note at the outset though that I put a great deal of stock and hope in the panel that was named by Governer Atiyeh and myself. It is unfortunate that is out of phase with the problems. The problems of WPPSS have generally been out of phase with our time to deliberate.

Addressing specifically Senate bill 1701, as I read the legislation, it will permit the Pacific Northwest to deal with its own problems. The States comprising the Pacific Northwest certainly are not asking for any Federal Government solution that would solve the problems for us.

What we are asking for is the means of the region itself having the flexibility necessary to deal with its own problems. It is really how we will accomplish our own solution.

I look at this, Senators, as enabling legislation, truly enabling legislation that gives permission collectively at the regional level to solve the problem without calling for a national bail-out or for a national handout. It is not a scheme to involve the uneffected parties, but it is an opportunity to clarify the existing authority that exists in the Bonneville Power Administration.

It does not call for Federal dollars. It does not call for a commitment of the Federal Treasury, but it does ask for clearer authority for regional problem-solving.

Let me address a couple issues that I think are important. We have a number of people here who are expert in a regional power plan which you adopted a few years ago and which is a very important piece of legislation of the regional power council: It is based on the assumption that certain plants are necessary to the energy needs of our region and the regional power council itself in establishing a very progressive conservation-based and conservation-oriented program.

It assumes that these plants 1, 2, and 3 will be built in order to carry out its conservation program and meet the energy needs of the area. I'll let them speak to that.

I think it is worth noting the ramifications of mothballing as such. If we can successfully mothball—and maybe others should address that—I raise the question though that there has never been in the history of the United States a plant that was 90 percent or 75 percent completed, then mothballed, let alone mothballed successfully. I think there's a serious issue whether that can be done. There is a serious question whether, in the process of mothballing, the licensing and the permits, which are under attack, can remain intact or whether that process will deteriorate and we will lose even more momentum as a result of the mothballing.

If it is not possible to restart plant 3 once it is mothballed, I think the analysis of the regional power council shows that additional powerplants will be necessary. If they can't get it out of mothballs, they will be an alternative source, and they will cost, based on the cost-benefit analysis at this point, more for those new powerplants than will the completion of these plants. They will most likely be, under the current plan, coal-fired plants.

It is worth noting that my fellow Governors not only were concerned about this WPPSS situation when I met with them the last few days but were very concerned about acid rain. That remains a problem if we abandon and can't get out of mothballs and move to another alternative.

These are valued regional assets that are respectively 97 percent complete for plant 2 and 75 percent for plant 3. They will be paid for by the ratepayers of our region whether they are completed or not. If they are not completed, some alternative generating source will be paid for at a higher cost.

Under any circumstance, it seems eminently sensible that energy be produced and revenues be collected in order to offset the cost of those plants so the ratepayers won't have to pay for dead horses, unfinished plants.

I think that it would be a very narrow, selfish and short-term perspective to think that somehow we could afford not to continue with plants that are at that degree of completion.

I won't go into the details of the NRC license, but it is under attack. This can only add to the problems with regard to completing this project.

Jobs are important, and I see that we have representatives of organized labor here. I'm not going to take your time to go into detail there except to say that these are not jobs projects, but they are projects which are necessary on which people work. It will be a shame to lose those jobs in a region that has suffered as dramatically as this region has suffered for the last several years.

Now, the problems of plants 4 and 5 are well aware in the minds of each Governor in the United States and, I am sure, of many members of this body. It is of catastrophic proportion. We are working very hard to solve those problems.

As we wrestle with those issues I feel that the loss of momentum on the major plants under construction now would indeed compound the problems that we have unnecessarily. I think that the unemployment, the cost of future energy generation, the cost to ratepayers will magnify and contribute even more negatively to the economy of the Pacific Northwest. Those are risks we need not take.

My final point is that time is short. There are many groups who in good faith are urging that we take a more leisurely approach to the solution of this pressing problem. It is appropriate at times to delay the legislative process for a great deal of further consideration and public comment. This is not such a time. This problem has been growing for years. Each passing day increases the costs and the liabilities of these projects.

All the key participants have known for a very long time of this issue. They have been warned and warned again that the investment which has been made and the economy of the entire Pacific Northwest will be jeopardized if necessary action is not taken and taken soon.

I believe that all responsible people of our State know that ultimately this must be done, and it is a question of time. I think this is not a time for self-interest. It is a question of public interest, and I think that we have to worry today about tomorrow's ratepayers and tomorrow's generation.

I started by saying that we had three goals in setting up the panel between the Governors to assist us in a solution of the problem. They are to keep the rates competitive and low. They are to keep sufficient energy, and they are to deal with this major problem, municipal financing, that has affected the Northwest and the rest of the Nation.

To the extent that not dealing with the completion of plants 1, 2, and 3 will not keep rates lower, it will almost guarantee, especially if they are not successful in coming out of mothballs, that rates will be higher over a protracted period of time. To the extent they will not provide the energy that we need and we will have to ultimately go to other and more costly sources, we are not serving the energy needs of the area. To the extent that we do not make progress in the solution of that problem, the ultimate solutions to the financial problems on the national markets, it seems to me, are jeopardized.

So, I urge action on this bill, not as a solution, but as a major step in cutting our losses which we need in order to reach a solution.

Thank you.

[The prepared statement of Governor Spellman follows:]

Testimony of
Governor John Spellman
before the
Senate Energy and Natural Resources Committee
on S. 1701
August 3, 1983

## Introduction

Mr. Chairman, members of the Committee. I appreciate the opportunity to testify on behalf of the state of Washington on S. 1701 which is before you today. As I read the proposed legislation, it would permit the Pacific Northwest region to deal with the problem of the Washington Public Power Supply System (WPPSS). The states comprising the Pacific Northwest certainly are not asking for the Federal government or any one else to solve its problems. What is being suggested is a means of resolution which provides the region some additional tools and increased flexibility in how the solution to this problem is accomplished. Many of you are aware that we have taken heroic steps to attempt to diminish the adverse impacts resulting from construction slowdown and termination of a portion of the electrical power supply program. We have now run out of probable and possible solutions.

## Enabling Legislation Sought

What is being sought is truly enabling legislation which will permit collective action at the regional level to solve these problems without calling for any kind of a national handout or bailout. This is not a scheme to involve unaffected parties in this difficult issue. The legislative proposal presents an opportunity to clarify existing authority which can be used to focus on our needs. It does not call for federal dollars; it does not commit the federal treasury; it does ask for clearer authority for regional problem-solving.

Any costs for implementing a program to continue construction of power plants that are substantially constructed (ranging from 60 percent to 99 percent complete) will be paid from the regional rate base, not from federal dollars.

The federal government properly can assist the region in seeing that the statutory tools are available to allow problem solving to take place on the state and regional levels.

In April of this year, the Northwest Power Planning Council adopted its first regional plan - a new and positive framework for power planning in the Northwest. While the major thrust of the plan deals with energy conservation (as required by the Act), it must be kept in mind that a major underpinning of the plan is the completion and operation of the WNP 1, 2, and 3. These plants are defined as part of the Federal Base System in Section 3 of the Pacific Northwest Electric Power Planning and Conservation Act of 1980 (PL 96-501). That is, these plants are a major part of the electrical power supply base on which the rest of the plan rests.

What happens if one or all of these plants are mothballed? Assuming the mothballing can be carried out successfully, which is no small task, the impact is primarily economic - the substantial additional costs which the region must bear to preserve and then restart construction to complete the plants. There is a great deal of uncertainty about those costs. There are estimates that the bill could run from $100-$800 million dollars for WNP 3. In all probability, the costs would be somewhere in between. In any event, they are large costs which will be imposed on the Northwest ratepayers which need not be incurred.

What if, however, mothballing cannot be carried out successfully? This is a real and substantial risk. No one has any experience with mothballing a nuclear power plant at anywhere approaching the 75 percent completion stage of WNP 3. We are entering new and potentially treacherous waters. I must echo the concerns expressed by the Northwest Power Planning Council in the letter to Senator McClure dated July 20, 1983. There are substantial risks of (1) technical and regulatory conditions which could make it difficult or impossible to maintain the plant license; (2) increasing the financial risks borne by the sponsors of the plant; and (3) increasing the cost to complete the plant to the point where it is no longer cost effective.

If it were not possible to restart WNP 3 (and presumably WNP 1 as well), the Power Council's analysis shows that additional power plants would have to be developed to replace these plants under all but the lowest demand growth scenarios. These new power plants would be coal-fired power plants from which the cost would exceed the cost of power from WNP 3 based on its current cost to complete. The growing concerns about acid rain may cast doubts on the validity of that option for more than a few plants.

### Valued Regional Assets

Three Supply System projects are largely completed. WNP 1 is over 60 percent complete, WNP 2 is over 97 percent complete, and WNP 3 is 75 percent complete. The bulk of the time and money necessary to complete these projects has already been expended, especially for Plants 2 and 3. These projects are valuable regional resources necessary to the future economic well being of the Pacific Northwest. They can either be finished in an orderly and cost-effective manner and placed in a position of easy readiness and use, or they can be left uncompleted, subject to additional lawsuits, contractor claims, non-productive mothballing costs and increased licensing vulnerability.

If these projects are unfinished, the ratepayers of the Pacific Northwest will be required to pay for non-productive existing resources as well as those investments required for other power resources needed in the future. Such an outcome makes no sense except in a very narrow, selfish, short-term perspective. If we are to be responsible stewards of the future, the existing investment must be made productive, and the plants must be finished before the additional costs of delay become any greater.

## NRC License Situation

The existing construction permits and supply system applications for the necessary operating licenses for all three projects are presently being challenged by outside intervenor groups in U.S. Nuclear Regulatory Commission proceedings. A central point to this challenge is the Supply System's failure to pursue construction in an orderly manner, the possibility that the Supply System will never complete these projects, and dangers to public safety potentially created through inordinate delay. No one knows whether these challenges have merit, but they are, under Federal regulation, a legitimate line of inquiry and pose a potential for adverse licensing action. It is essential that all these projects be finished in an orderly professional manner, that necessary licenses be received on a timely basis, and that public safety be assured beyond question.

## Impact on Jobs

The prime purpose of these plants is not to provide jobs, but rather to produce electricity. However, an important side benefit of these projects is the substantial employment they provide during the construction phase. In May, 1983, nearly 3,000 people were involved in the construction of the Satsop plant in western Washington. During the same period, over 7,000 people were employed in the Supply System headquarters and on the Hanford reservation Projects 1 and 2 in eastern Washington. Those 10,000 jobs, plus the secondary employment they create, represent a very significant economic factor for Washington State.

The economy of the Pacific Northwest and Washington State in general has been severely depressed during the past few years. Our forest products and aerospace industries have been especially hard hit. The region's economy is starting to recover, but recovery has been projected to significantly lag behind the remainder of the nation. However, without the employment created by the Supply System's projects, even this recovery may well falter. The employment benefits from these projects would far better serve the state now than at some point in the future when the other sectors of our economy have finally recovered.

The employment benefits from these three projects should not be sacrificed due to inaction and inertia. Rather, these jobs should be contingent upon a regional determination of the need to produce the electricity - a decision positively made in the regional power plan. This decision should only be reversed by action . . . not inaction.

Mr. Chairman, the northwest states have an extraordinary problem confronting them. The termination of two partially constructed nuclear power plants (WPPSS 4/5) is one of the most difficult problems we have ever faced - perhaps the most difficult. We have been wrestling with the issue for some time. The default situation is terribly serious for not only those that are directly involved but for our cities, towns, and our citizens and ratepayers. Compounding those problems unnecessarily will do untold damage to individuals and to the region as we struggle to hold onto and improve the conditions that are favoring economic recovery in our part of the country. Termination of WNP 4/5 is an unavoidable fact; termination of WNP 1, 2, and 3 will place a heavy burden on far too many people and organizations to be allowed to happen.

Failure to solve the problem on an orderly and timely basis will impact the Northwest for decades. That kind of a legacy for our citizens (and ratepayers) would be both irresponsible and unthinking. We must deal with our responsibilities now, even if it entails some political distress and pain. The alternative for current resolution may be no resolution at all - and the consequences will undoubtedly magnify and spread.

If the states and people in the Pacific Northwest are not allowed to solve this problem, the expanding impacts might require future Federal involvement with greater cost and impact. A much preferred and more immediate alternative is provided for in S. 1701. We badly need a tool providing additional flexibility to help us restore financial stability in our area of the country.

## No Time

Many interest groups are urging that we take a leisurely approach to solving this pressing problem. It is appropriate at times to delay the legislative process for further consultation and public comment. This is not the time. This problem has been growing for years. Each passing day increases the costs and liabilities of these projects. All other key participants have long been aware of the issue - they have been warned and warned again that the investment which has been made, and the economy of the entire Pacific Northwest will be jeopardized if necessary action is not taken and taken soon. I believe all responsible people know what is at stake and what must be done. Now is not the time for self interest, but for the public interest. Now is not the time to worry about "today", but rather about our obligations to future generations. We have no time, except for immediate action.

Mr. Chairman, and members of the Committee, I thank you for allowing me to comment on the urgent need for action . . . the need for legislation like S. 1701.

The CHAIRMAN. Thank you very much, Governor. I appreciate your statement and several of the points that are made in the statement, some of them made more fully in the statement than in your oral remarks in summary of that statement.

I have just two questions. There have been a number of efforts that have been tried in the past and that have failed to come to grips with the overall problems confronting WPPSS, the WPPSS bondholders, the Northwest power availability, and the associated questions.

You make reference to a blue ribbon panel which has now been appointed by you and Governor Atiyeh to try to arrive at a comprehensive solution. You have stated, as have I and Senator Jackson, that this bill is not represented by any of us to be a total solution. It is a partial solution at best.

Do you see anything in this legislation that either interferes with the deliberations of the blue ribbon panel as they seek more comprehensive solutions?

Governor SPELLMAN. No, I do not, Senator. Quite clearly, to the extent a problem is alleviated or removed it will assist them in their deliberations.

The CHAIRMAN. My other question has to do with a matter which you addressed. As you put it, this is not a jobs bill but it has tremendous impact upon employment in your State. Have your agencies been able to make any estimate of the unemployment compensation impact upon your State if No. 3 were to go down as a result of a failure to provide financing?

Governor SPELLMAN. I will provide you with the specific figures, but there isn't much question that what has taken place there already has caused severe trauma in unemployment compensation, not only directly but indirectly. We have lost 1,000 since this report was last made. As more go the problem exacerbates.

The CHAIRMAN. So, you lose both ways. You lose the income that is paid by taxpayers and you increase the expenses to your Government as a result of the necessity to pay unemployment compensation and other welfare benefits to people who cannot find employment. Is that correct?

Governor SPELLMAN. That is correct. This continues the downward spiral.

The CHAIRMAN. Thank you very much, Governor, for your interest and your attention to this matter and for your appearance and testimony today.

Senator Jackson.

Senator JACKSON. Governor, I take it that you view as the key to turning this thing around is to complete the three plants at whatever time, but to complete 1, 2, and 3.

Governor SPELLMAN. That is correct, Senator.

Senator JACKSON. Unless they are completed, you will not have the revenue that will have to be generated so that you can amortize the payout and relieve the ratepayers of that burden. Isn't that the heart of any solution?

Governor SPELLMAN. That is patently clear with regard to, for example, plant 3 that is 78-percent complete. It is patently clear.

Senator JACKSON. Two is 97 percent.

Governor SPELLMAN. That is correct.

Senator Jackson. One is 60 percent. However, a solution must involve the completion of these plants, whether the power is sold in the region or substantially outside the region. That is a fundamental condition to any plan that hopefully will provide a solution.

Now, let me ask you another question. First, you are to be commended in selecting an outstanding panel of people who are experts in this field and who have credibility in the financial markets, which is a major problem now facing the Nation with respect to the municipal bond market. So, I want to commend you for your judgment in this matter.

In that connection, when do you expect that we could have the benefit of the panel's findings and recommendations?

Governor SPELLMAN. Senator, as was stated earlier, their due date is October 6. I am hopeful that we can have it by the end of September.

Senator JACKSON. So, within the next 2 months hopefully we will have the advantage of their recommendations?

Governor SPELLMAN. Yes; I think that is clearly the case.

Senator Jackson. That is all I have, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Metzenbaum.

Senator METZENBAUM. Governor, the National Taxpayers' Union just publicly stated that they oppose S. 1701 as a thinly disguised Federal bailout of the uncompleted projects 2 and 3 of the Washington public power supply system. They go on to say that the bottom line is that the federally guaranteed Bonneville Power Administration would pay the principal, interest, and related costs on new borrowings directly to the trustees and creditors of the WPPSS.

At a time when BPA's current debt obligations to the Federal Government are not being met, this move would cost taxpayers and the U.S. Treasury dearly.

Governor, aren't you one of those who, in the political mainstream, have indicated that you think the Federal Government should let private business do it themselves and not involve the Federal Government in doing that which the private sector can do so much better?

Governor SPELLMAN. Well, Senator, first of all if there is anything that is not private it is the public power supply system. It is very public, and it is the people of four Western States who are the public utilities of those States.

Senator METZENBAUM. Aren't there four investor-owned utilities that——

Governor SPELLMAN. Who hold 10 percent of one of the two terminated plants and 30 percent of one other.

Senator METZENBAUM. And this legislation would in effect help them save $600 million, wouldn't it?

Governor SPELLMAN. It would help them on 30 percent of one of the five plants.

Senator METZENBAUM. Which is a $600 million investment.

Governor Spellman. And compared to the public at large of four States who are the public utilities—and it is worth noting that in some of our States and even our State 56 percent of the power delivered to customers is delivered by private power. So, we have a very distinct interest in both public and private power for three goals—to keep the rates competitive, to get enough power, and to stabilize this terrible situation that we are in.

So, I am not advocating a bailout, Senator, but I think this is the furthest thing from a bailout. This will allow the region to solve its own problems.

Senator Metzenbaum. Well, as a matter of fact, though, the obligation which would exist between BPA and the newly created units would be a preferential position. FERC has already said that the position, the rollover and the obligations have cost the Federal Government between $700 million and $1.4 billion. If you put the obligations to the Federal Government behind this new obligation, isn't that in effect a bailout?

Governor Spellman. No, it isn't. I must say that I certainly respect your point. I think that Bonneville should pay for itself. The only way it is going to pay for itself is if it is producing power and if it is collecting from our ratepayers. It won't be collecting from the Federal Government. If it has dead holes there this situation will exacerbate. It will not get better.

The idea now is to take those plants that are either down or going into mothballs and get them producing so that Bonneville will be able to pay to the Federal Government from dollars raised from ratepayers in our region.

Senator Metzenbaum. Isn't it a fact that you actually have a surplus of supply right now, 40 percent as I understand it?

Governor Spellman. We have a surplus.

Senator Metzenbaum. Then why do you want some new powerplants if you have a 40-percent surplus?

Governor Spellman. Well, for two reasons, Senators. First of all we have a surplus, but that surplus is being disposed of quite usefully. Some of it goes to meet the needs of the great State of California. Others of it go to meet the needs of the irrigators and the farmers throughout the Northwest at reduced rates, and that is good.

Senator Metzenbaum. Doesn't BPA say they don't need this new power?

Governor Spellman. No; the BPA is here today, and they will tell you that they need it. The congressional act, the regional power bill, says that we need these plants. The Regional Power Council, which has come up with a wonderful conservation and is not power-oriented, in my opinion, has said that this is the underpinning in order to have a good conservation program. We have to have this amount of base power to be able to conserve and have a balanced power policy in the Northwest.

Senator Metzenbaum. Hasn't the Public Power Council indicated its opposition to this proposal?

Governor Spellman. Well, that is a group of utilities.

Senator Metzenbaum. Public utilities?

Governor Spellman. Yes.

Senator Metzenbaum. Publically owned?

Governor Spellman. Yes.

Senator Metzenbaum. So, they have indicated their opposition.

Governor Spellman. Yes, some have. I think that the reason is clear. I respect their reason. They would like a total solution, not just to how do you complete these plants, but how do you deal with the debt on the terminated plants. Now, that is going to take a lot longer to work out, Senator, and that is one where people may be talking Federal bailout. I don't think I will be.

However, I think we have to deal with this incrementally at this point, and this part is clearly not a Federal bailout.

Senator **Metzenbaum**. Well, certainly it means that the money owed to the Federal Government which is owed at less than the rate that the Federal Government is paying for money that it borrows will be put behind this new obligation. Will it not? That is exactly what it will do.

Governor **Spellman**. No; there will not be any Federal Treasury liability for this.

Senator **Metzenbaum**. You didn't hear me. I didn't say there would be any Federal Treasury liability. What I said is that BPA owes about $7 billion to the Federal Government. That money is owed at rates running at about an average of 3.5 percent on about $3.9 billion of that and about 7 percent or 7.5 percent on about $1.9 billion of that. I am not sure about the balance. All of that is substantially less than the amount of money the Federal Government must pay for its borrowings at the moment.

If this new $1 billion comes in and gets repaid earlier and as a consequence BPA owes the Federal Government the money for which it is presently obligated, doesn't that effectively mean that the rest of the taxpayers of this country are carrying the burden of subpower interest rates for the people who are supplied by Bonneville?

Governor **Spellman**. Let me start by saying that, if the Federal Government is in effect loaning money or allowing Bonneville to use money at a lower rate than they can make by outside investment, that may well be the case. It may be a sound Federal policy. It may exist with regard to other Federal entities, and I will leave that question to you.

However, in answer to your question, would the completion of these plants in any way jeopardize the Federal Government, no it would not. As a matter of fact, in my opinion, it would enhance Bonneville's ability by collecting money from customers in our area to keep current with the Federal Government. I will let the Bonneville Power Administrator address that. He is here.

Senator **Metzenbaum**. Would they have to raise rates?

Governor **Spellman**. We have had to raise rates repeatedly to pay the Federal bills and the other bills.

Senator **Metzenbaum**. How much will they have to raise rates in order to meet this new obligation?

Governor **Spellman**. I will leave that to the——

Senator **Metzenbaum**. Do you support the raising of rates to do that?

Governor **Spellman**. Senator, I never support raising rates. However, we've had to do it, and when we have to do it I am one of those who says that, yes, we have to. We don't like to raise taxes or rates out our way, but we have done both.

Senator **Jackson**. For clarification, I think that we should make clear that since the days of Teddy Roosevelt the Federal Government has subsidized public power hydroelectric development. For example, REA loans have interest rates as low as 3, 4 percent. Public power projects throughout the Nation have benefited as a result of subsidized interest rates.

Senator METZENBAUM. Isn't it a fact that on almost every——

Senator JACKSON. This is not just the Northwest.

Senator METZENBAUM. No; however all of the others provide for a repayment schedule, and in connection with BPA there has been very little repaid, nothing during the last 3 years. There has been a rollover policy, I think, since 1965 if I am not mistaken.

Senator JACKSON. Well, I think that you will find that our payout in the Northwest has been better than any place in the country. Now, I would point out to you that there are a lot of Federal loans that apply not to the Northwest but throughout the Nation. I mentioned REA loans that electrified rural America, which we handle on a subsidy basis. I just wanted to point out that it wasn't just our region.

The CHAIRMAN. I assume the Senator from Ohio is equally opposed to those.

Senator METZENBAUM. No; I would say to you that I think I am opposed to any loans, any by the Federal Government, whether it has to do with obligations owed to the Federal Government for timber or whether it has to do with BPA money, not being repaid. I think everybody ought to pay their bills. I think that when they are due and if there are some special extentuating circumstances we ought to provide for some relief.

The CHAIRMAN. As a matter of fact we have. This is not the time for a debate between the Senator from Ohio and the Senator from Idaho. We have been having that and we will have it further. However, as a matter of fact, the delay on those repayment schedules have been approved by the Congress.

Senator METZENBAUM. Which repayment schedule?

The CHAIRMAN. The repayment schedule by Bonneville. It has been approved in the appropriations process. Senator Proxmire is inveighing on the floor of the Senate. He is a member of the Appropriations Committee that has approved that. It has been approved by the Senate and the House. It has been signed into law by the President of the United States. Now, you may disagree with the policy. Let's not confuse your opposition to the policy with the question of whether it is legal or illegal.

Senator METZENBAUM. Are you saying that it has been approved each year?

The CHAIRMAN. Yes, sir.

Senator METZENBAUM. Then that is all the more reason that the Appropriations Committee should not be having jurisdiction in this area. [Laughter.]

The CHAIRMAN. As a matter of fact, I am surprised that a Senator who knows so much about this issue didn't know that.

It is my consumers who are being forced to face the proposition imposed by people outside our region. For some reason, which escapes me, we must pay a penalty because somebody else doesn't understand what the issues are.

Senator METZENBAUM. We understand full well what the issue is, and I understand full well that the Federal Treasury will wind up footing the bill if you are successful.

The CHAIRMAN. That may be the Senator's opinion, but he is entirely wrong. That is my opinion.

Senator METZENBAUM. You have a right, and I would defend to the end your right to be wrong.

The CHAIRMAN. As, unfortunately, I must defend yours as well. [Laughter.]

We are pleased to have today two members from the Northwest, Members of the Senate who are not members of the committee. However, they have great interest in this, and I welcome their participation in these hearings today, Senator Gorton from the State of Washington and Senator Baucus from the State of Montana. I would like to recognize Senator Gorton at this time for any questions he might have of the Governor. The Governor does have a schedule he has to keep. I understand that each of you may have statements you would like to make. I wonder if we could reserve those until after the Governor's appearance, and then I will recognize you for whatever statements you might like to make.

Senator Gorton.

Senator GORTON. Thank you, Mr. Chairman. I want to express my appreciation not just for your courtesy in allowing me to participate in this hearing, but for your courage and devotion toward solving a significant and serious problem facing the people of the Pacific Northwest. You obviously have an interest in it on behalf of the citizens of the State of Idaho. That interest is perhaps even greater in the State of Washington, and your assistance is greatly appreciated.

The witness who appears before us, the Governor of the State of Washington, deserves my apology for not having been here on time to provide an introduction to him. However, he has devotedly and courageously worked to solve a problem which was not of his creation, which was created by inefficiencies and by decisions made long before he was Governor. He has paid a great deal of political capital in an attempt to solve those problems. I believe that he deserves a lot of tribute from us for being willing to exercise the leadership which he has provided to this point in this process.

I am convinced, as is the chairman, that not only does this not amount to anything remotely resembling a Federal bailout, but that in fact the completion of plant No. 3 under the plan outlined here will strengthen the ability of the Bonneville Power Administration, not only to see to the payment of the extra costs of construction but its other obligations to the Federal Government, that it will be strengthened.

Not only does this not involve the non-BPA projects No. 4 and 5, but it certainly does not hurt those bondholders. They are better able to recover their debt from a WPPSS which owns operating plants than nonoperating ones.

I would like to ask the Governor whether or not he does not agree with me that the sole question before us here is whether or not the people of the Pacific Northwest are better off being required to repay a debt, perhaps as much as $4 billion, with absolutely no source of income in the form of power with which to pay that debt, or better off going forward by roughly another 20 or 25 percent, perhaps as much as another $1 billion, and having an asset which is actually producing power, the necessity for which has been validated by a very recent regional power council, under which set of circumstances the people of the Northwest are going to be better off, $4 billion for a dry hole or $5 billion for something which is producing.

Governor SPELLMAN. There is no question that in terms of the average citizen, the ratepayer, having a producing entity will keep their rates lower and keep them healthier individually in the businesses and jobs they have.

Senator GORTON. And you are simply here asking us to give the region which you represent the opportunity to solve its own problem in that fashion.

Governor SPELLMAN. Exactly. We come here not with our hand out but for authority to solve the problems ourselves.

Senator GORTON. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Baucus, do you have any questions?

Senator BAUCUS. Mr. Chairman, thank you very much. I want to first thank you for allowing me, not a member of the committee, to be part of this hearing.

Governor, I join other members of the panel in welcoming you. The question I have, very simply, in addition to the question that Senator Gorton asked you, is this. Is the degree to which you think that the appropriate parties should be willing to abide by conditions somewhat similar to conditions that were made part of other Federal guarantees? I am referring obviously to Chrysler, Lockheed, and New York City generally.

Could you give us some idea as to the degree to which you think that the appropriate parties should abide by a similar condition?

Governor SPELLMAN. Well, I think, Senator, to the extent any Federal dollars are proffered or potentially proffered to the region, conditions are absolutely appropriate.

However, I think that is not what we are here asking for today. We are asking for a rather minor amendment in existing power that Bonneville has to allow to get through a very sticky situation that is arising to a matter of national proportion at this time.

Senator BAUCUS. I understand that, but in order to get that minor amendment there may have to be minor stipulations and conditions, too.

Governor SPELLMAN. It would be a shame, though, in my opinion, if the Federal Government, in order to give us the authority to solve our own problems, tried to charge a heavy price for that. We may have been around some other time to ask for something that would warrant that, but this is not that kind of action.

Senator BAUCUS. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Governor, thank you very much for your testimony, and we look forward to the report of the blue ribbon panel. We are hopeful that somebody is able to fashion a comprehensive solution that will provide not only the relief that the consumers and ratepayers of the Northwest are seeking, but we also seek a solution to that bond repayment with respect to units 4 and 5. That is an infinitely more difficult question.

However, that doesn't involve just those of us in the Northwest. It involves thousands of people across this country, institutional investors and individuals, all of whom are concerned about the default on units 4 and 5.

However, it does have a peculiar and particular impact upon the Northwest. While that is not a part of this legislation and not directly a part of this hearing, we will look forward to that. Hopefully, we can work together toward a more comprehensive solution.

Governor **Spellman**. I appreciate the opportunity, and I certainly recognize Senator Hatfield who has been very helpful with regard to looking at these problems. I share your hope and your prayer that we come up with the proper answers in the long run for this because it is very important for the people of our region and, I think, increasingly nationwide.

Thank you very much.

The **Chairman**. Thank you very much.

Senator Metzenbaum, I believe you indicated you had an opening statement that you would like to make.

## STATEMENT OF HON. HOWARD M. METZENBAUM, A U.S. SENATOR FROM THE STATE OF OHIO

Senator **Metzenbaum**. Mr. Chairman, I told you earlier on that I wish to be heard. I came late, as you know, because the other matter was still on the floor until we disposed of the cloture vote.

However, I am concerned about the balance of this hearing. I am concerned about the balance of the hearing because we had asked that FERC, which has taken a position as to cost of subsidization of BPA, be formally invited. They are not here. They may have been informed that they could show up, but we believe that their appearance is very much warranted.

We had also indicated that Chemical Bank should be invited, as well as others representing the WPPSS four and five bond-holders, and they are not here. We had asked that the president pro tem of the Washington senate be here. I don't know if he was invited or not, but he is not here.

No one is here from the banks allegedly lining up to arrange new financing, but frankly I think that is quite important because I think we should know what is really contemplated in the event you were successful. No one is here from the bond rating agencies who would evaluate the soundness of the new financing or the present status.

I really have concern that in this anxiety to pass this piece of legislation the hearing we have be balanced so that we may have the pluses and the negatives.

I was concerned that, A, there had been no hearing with respect to the amendment on the appropriations bill. I am doubly concerned that now that you have seen fit to introduce an authorizing bill the hearing does not have a sense of balance.

In all fairness to you, Mr. Chairman, the hearing was put together on rather short notice. However, if we are to try to mark-up this bill, I would hope that some of those others who have a point of view would have an opportunity to be heard.

The **Chairman**. Senator, the request for witnesses, some of which you have referred to, was received by the committee on either Monday or Tuesday, partly on Monday and partly on Tuesday, and we made efforts to locate witnesses who could accommodate that time schedule and to appear here. We were unable to do so.

We communicated to the Chemical Bank our willingness that they appear and testify. If they wished to do so, they did not respond to that communication on our part. I can only conclude that, in view of the time, they didn't wish to appear and testify today.

With respect to those or others who may have testimony which they would like to make a part of the record, the hearing record will be kept open. They can file statements if they wish. We can then evaluate the necessity for any further testimony or hearings at that time. However, I think it would be premature for us to attempt to do that now.

Senator **METZENBAUM**. I am not charging or even suggesting any unwillingness on the part of the Chairman. I think that if the Chairman actually intends to go forward with a mark-up on this measure—I assume after the recess—I would hope that he would see fit to invite—particularly, I think, FERC's testimony is very important. I think Chemical Bank is important. I think some others are. We can discuss that.

The **CHAIRMAN**. I would be glad to work with the Senator on that, and I am particularly pleased that the Senator is here.

Did you wish that your opening statement be made a part of the record?

Senator **METZENBAUM**. Yes.

[The prepared statement of Senator Metzenbaum follows:]

*U. S. Senator Howard M.*

*METZENBAUM*

*of Ohio*

Committees:
Budget
Energy and Natural Resources
Human Resources
Judiciary

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FOR IMMEDIATE RELEASE
August 3, 1983

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STATEMENT BY SENATOR HOWARD M. METZENBAUM

BEFORE THE SENATE ENERGY AND NATURAL RESOURCES COMMITTEE

ON S.1701, WPPSS

Mr. President, by now everyone has heard about the municipal bond disaster known as "Whoops." You would think that the people behind WPPSS have learned their lesson. But that would be a vain hope. We have before us today "the son of WPPSS." And it is as ill-conceived as its predecessor.

Let me say at the outset that I am deeply concerned about the WPPSS fiasco. I believe Congress ought to address the issues raised by what is the largest municipal bond default in history. But precisely because the matter is so swweping and complex, we ought to take special pains to carefully examine alternative approaches. Unfortunately the proposal before us received no such review.

Instead of acting judiciously, we are acting hastily. We have a WPPSS solution crafted behind closed doors. Interested parties, such as financial institutions, bond agencies, investors, rate payers and public power companies have only been given a single afternoon hearing to air their views. But this hearing is a charade designed to give the illusion that the proposal has been thoroughly studied. No one should mistake this hearing for the kind of reasoned deliberation and careful study accorded most legislative proposals--especially those as far reaching as this one.

Sponsors said here yesterday that there may be problems with this provision. But we should pass it now and repair it later. Is that how we are going to legislate? For once, let's do it right the first time. And the right way is to hold full and complete hearings, examine a variety of alternatives, determine which one is best and bring that to the floor.

Let me tell you how quickly this proposal was drafted. There is no substantive legislative language. Instead, the provision refers members to the committee report for an explanation of the proposal. In short, the committee has sought to substitute a report for well-crafted statutory language. Why? Because it didn't want to take the time to do it right.

In fact, there are scores of substantive problems with the legislation. It is ambiguous, confusing and mischievous. Ultimately, it will not work.

Several supporters are spreading myths about this provision. Myth number one is that it will not cost the taxpayers a cent.

The bill would create a new entity, son of WPPSS, to arrange at least $1 billion and, perhaps as much as $3 - 4 billion, in new financing to complete WPPSS projects 1-2-3. The Bonneville Power Administration would commit itself to repay the principal and interest incurred by son of WPPSS, through its power rates.

But the fact is BPA has not - and indeed cannot - meet its existing obligations to the federal government for construction of non-WPPSS related generating and transmission facilities even though the law requires it to raise rates sufficiently to do so.

To date, BPA owes the treasury nearly $8 billion. Much of that money carries interest rates below five percent. It has paid back only $638 million, less than ten percent. In the last decade, it has paid only $42 million in payments. And it has made no payments in the last three years. According to the Federal Energy Regulatory Commission, BPA's delayed repayment practices has cost taxpayers $740 million to $1.4 billion.

Now we would add another $1.4 billion to BPA's debt obligations. And because of a Federal Energy Regulatory Commission rule, son of WPPSS would be paid off before the federal treasury. Thus, the taxpayers of the United States will forego additional billions of dollars owed to them under the law in order to subsidize construction of nuclear power plants that aren't even needed. Make no mistake, every penny of new debt incurred by son of WPPSS means less payments to the treasury - and consequently added burden to taxpayers of the rest of the country.

But don't worry, we are assured. The ratepayers of the Northwest will ante up enough money to cover the new obligations, as well as the existing ones.

Don't be fooled.

They aren't coming up with enough money now, in spite of the law and in spite of a 700 percent BPA rate hike since 1979. Does anyone seriously believe that ratepayers will suddenly roll over and meekly accept $1.4 billion in new obligations?

But loss of revenue is not the only way taxpayers will lose. It is quite possible that BPA, given its dismal repayment history, will default on its new obligation to son of WPPSS. And then who is left holding the multi billion dollar bag? You guessed it: the American taxpayer.

Sponsors have assured us that BPA can comfortably assume these new obligations without damaging its repayment obligations to the treasury. Maybe they know something that BPA itself doesn't know.

In a May, 1983 report, BPA itself said that its "financial flexibility has become more restricted." And it added,

> "Given these circumstances, BPA must husband its fiscal resources and critically review any increase in financial exposure. BPA's only choice is to reduce financial risk and not further encumber the revenue generating capability of the federal system in the current circumstances."

In short, said BPA, construction of unit three would impair its revenue generating capability and it should be delayed.

Sponsors say that we must build units two and three so additional revenues can be generated to pay off the federal debt. But the Northwest is awash in power. There is no market for high priced nuclear energy. Who is going to buy it?

Members should ask why we are in such a hurry to pass this. I submit that the main reason is to bail out four investor-owned utilities who have put up $600 million to build unit three. Under oregon law and current Washington state policy, they cannot recover this investment until the plants are on line. They are the ones behind this bill. They are the ones pressing to finish unit three, a plant which BPA itself says is not needed until 1989 at the earliest. In fact, it was the four investor owned utilities who drafted this provision.

Another myth is that this legislation somehow helps bondholders. In fact, it may actually hurt WPPSS bondholders. The bill could result in sealing off the assets of units one, two and three from bondholders of units four and five. Right now, WPPSS has defaulted on bonds for units four and five. The trustees for the bondholders have indicated that one possible way to recover payment is getting access to other WPPSS assets, such as units one, two and three. But depending on the eventual financing package, a chinese wall may be built around those units, putting unit four and five bondholders at even greater risk than they are today.

> It is also quite pssible, as my good friend from Louisiana said yesterday, that existing bondholders on units one, twc and three might be hurt. This could occur if the financing is arranged in such a way as to give son of WPPSS creditors first crack at BPA's revenues.
>
> There are many other problems with this legislation. It puts the Congress feet first into a legal swamp, already swarming with a dozen lawsuits. Its impact on existing litigation is unclear. It is almost certain, though, that it would prompt additional suits.
>
> Mr. President, this is no way to legislate. Let us address WPPSS. But let's do it through the front door, following proper legislative procedures, not through the back door with a vehicle which causes more problems than it solves.

The CHAIRMAN. I don't mean to be unduly personal, but I do appreciate that in view of the fact that you had a press conference at 1 at which you called this hearing a charade that you are willing to participate in the charade.

Senator METZENBAUM. What I am saying to you is that I tried to clean it up a little bit for your ears, Mr. Chairman. I think that it is a charade.

The CHAIRMAN. We have all played that game, and apparently you are a player in it.

Senator METZENBAUM. I don't have any objections to using a little stronger language if you really desire me to do so.

The CHAIRMAN. Whatever the Senator wishes.

Senator Gorton, do you have an opening statement?

Senator GORTON. My opening statement was, in effect, my introduction.

The CHAIRMAN. Senator Baucus?

Senator BAUCUS. No, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Congressman Chandler, welcome. You are sitting in with us today to listen to the testimony, and I appreciate very much your interest and concern in this matter, as I think all of us in the Northwest must be.

Mr. CHANDLER. Thank you, Mr. Chairman.

The CHAIRMAN. The next witness on the witness list is Mr. Peter Johnson, the Administrator of Bonneville Power Administration.

Mr. Johnson.

## STATEMENT OF PETER T. JOHNSON, ADMINISTRATOR, BONNEVILLE POWER ADMINISTRATION, DEPARTMENT OF ENERGY

Mr. JOHNSON. Mr. Chairman, members of the Senate Committee on Energy and Natural Resources, and others who have joined this session, my name is Peter Johnson. I am the Administrator of the Bonneville Power Administration. I wish to thank you for this opportunity to testify on Senate bill 1701 and amendment 317 on House bill 3363 today on behalf of the administration and to provide views on the Washington Public Power Supply System and its difficulties.

I commend your decision to hold hearings on this bill and confront these issues. Strong leadership is essential in addressing questions of significant and enduring importance to the Pacific Northwest.

As you know, in my letter of July 18, 1983, I requested clarification and reaffirmation from the Congress of Bonneville Power Administration's authority to enter into arrangements with a new entity to finance the net billed projects. With the committee's approval, I should like to submit a copy of that letter with my testimony for the record.

In addition, I would also like to submit a copy of a letter dated August 1, 1983, from the Department of the Treasury which suggests an amendment to the language of the bill we are discussing today. This amendment clarifies the administration's views with respect to the Bonneville Power Administration ratepayer obligations to repay the full costs of any new financing which might be available as a result of the bill. This language is designed to insure that no Federal funds in the form of borrowing from Treasury or appropriations would be used to complete WNP two or three.

The bill will be consistent with Bonneville Power Administration's other statutory authorities, which provide that the ratepayers of the Pacific Northwest alone, and not U.S. taxpayers, are obligated to repay the full investment in the Federal Columbia Power System. BPA supports this amendment.

The CHAIRMAN. That letter now will be made a part of the record as a part of your testimony, although I did include a copy of that in my opening remarks.

Mr. JOHNSON. Bonneville believes that this bill will facilitate short or intermediate term financing to complete construction of WNP two and three. The legislation and the accompanying committee report language clarify and reaffirm a number of BPA authorities which we need to insure that the Bonneville Power Administration investment in the capability of the net-billed projects survive the supply system's current difficulties intact. This legislation should help the region begin to resolve obstacles which currently preclude prudent near-term financing of WNP three.

As the Appropriations Committee report on H.R. 3363 acknowledges and directs, a number of activities must be undertaken to implement this legislation—one, the creation of a new entity under State law that could obtain financing for the construction of these projects; second, the terms of any financing arrangements must be negotiated among BPA with the new entity and the financial community; third, the schedule for WNP three construction must be agreed to by BPA and the project owners; and most importantly, fourth, the arrangements must be determined to be prudent and appropriate before they are finalized.

There are other major difficulties surrounding the supply system which remain outside the scope of this bill. These difficulties include the legal and financial impacts of default of WNP four and five bonds, legal claims likely to be leveled at the net-billed projects by WNP four and five creditors, the legal and economic uncertainty associated with liability for WNP four and five costs, and the threats these difficulties represent to the institutional integrity of the supply system—the entity upon which we rely to construct and operate the net-billed projects.

It is exceedingly important that means be found to isolate the net-billed projects from any potential threats resulting from the problems associated with WNP four and five so that the $6 billion invested by BPA in the net-billed projects may be managed efficiently and economically for the region's ratepayers.

This means that not only short-term and intermediate-term financing be available but long-term financing as well; that construction and operation of the net-billed projects be free of the uncertainties surrounding WNP four and five; and that BPA's authority to protect these resources needed to meet load be clear and unambiguous. The current legislation is a step in the direction of addressing the problem.

As you are aware, the Governors of Oregon and Washington in consultation with the region's other Governors have formed an advisory panel to frame recommendations for regional solutions to major problems involving or arising from supply system difficulties. This panel is expected to deliver its recommendations in October.

We applaud the Governors' initiative in this effort, and we welcome the congressional initiative on this legislation. This legislation is a responsible step which will facilitate resolution of the difficulties associated with the net-billed projects.

This concludes my prepared remarks, and I will be pleased to answer any questions that the committee may have.

Thank you.

[The prepared statement of Mr. Johnson follows:]

## TESTIMONY OF PETER T. JOHNSON BEFORE THE SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES

Mr. Chairman, I am Peter T. Johnson, Administrator of the Bonneville Power Administration. I wish to thank you for this opportunity to testify on S. 1701 and amendment 317 to HR 3363 today on behalf of the Administration, and to provide views on the Washington Public Power Supply System (Supply System) and its difficulties.

I commend your decision to hold hearings on this bill and confront these issues. Strong leadership is essential in addressing questions of significant and enduring importance to the Pacific Northwest.

As you know, in my letter of July 18, 1983, I requested clarification and reaffirmation from the Congress of BPA's authority to enter into arrangements with a new entity to finance the net billed projects. With the Committee's approval, I should like to submit a copy of that letter for the record.

In addition, I would also like to submit a copy of a letter dated August 1, 1983, from the Department of Treasury, which suggests an amendment to the language of the bill we are discussing today. This amendment clarifies the Administration's views with respect to BPA ratepayer obligations to repay the full costs of any new financing which might be available as a result of the bill. This language is designed to ensure that no Federal funds in the form of borrowings from Treasury or appropriations will be used to complete WNP 2 and 3. The bill will be consistent with BPA's other statutory authorities which provide that the ratepayers of the Pacific Northwest alone - and not U.S. taxpayers - are obligated to repay the full investment in the Federal Columbia River Power System. BPA supports this amendment.

BPA believes that this bill will help to facilitate short- or intermediate-term financing to complete construction of WNP 2 and 3. The legislation and the accompaning Committee report language clarify and reaffirm a number of BPA authorities which we need to insure that the BPA investment in the capability of the net-billed projects survive the Supply System's current difficulties intact. This legislation should help the region begin to resolve obstacles which currently preclude prudent near-term financing of WNP 3.

As the Appropriations Committee report on HR 3363 acknowledges and directs, a number of activities must be undertaken to implement this legislation: (a) the creation of a new entity under State law that could obtain financing for the construction of these projects; (b) the terms of any financing arrangements must be negotiated among BPA with the new entity and the financial community; (c) the schedule for WNP 3 construction must be agreed to by BPA and the project owners; and most importantly, (d) the arrangments must be determined to be prudent and appropriate before they are finalized.

There are other major difficulties surrounding the Supply System which remain outside the scope of this bill. These difficulties include the legal and financial impacts of default on WNP 4/5 bonds, legal claims likely to be leveled at the net-billed projects by WNP 4/5 creditors, the legal and economic uncertainty associated with liability for WNP 4/5 costs, and the threats these difficulties represent to the institutional integrity of the Supply System — the entity upon which we rely to construct and operate the net-billed projects.

It is exceedingly important that means be found to isolate the net-billed projects from the questions of a potential Supply System bankruptcy and from WNP 4/5 claims, so that the $6 billion dollars invested by BPA in the net-billed projects may be managed efficiently and economically for the region's ratepayers. This means that not only short-term and intermediate-term financing be available but long-term financing as well; that construction and operation of the net-billed projects be free of the uncertainties surrounding WNP 4/5; and that BPA's authority to protect these resources needed to meet load be clear and unambiguous. The current legislation is a step in the direction of addressing the problem.

As you are aware, the Governors of Oregon and Washington in consultation with the region's other Governors have formed an Advisory Panel to frame recommendations for region solutions to major problems involving or arising from Supply System difficulties. This panel is expected to deliver its recommendations in October.

We applaud the Governors' initiative in this effort and we welcome the Congressional initiative on this legislation. This legislation is a responsible step which will facilitiate resolution of the difficulties associated with the net-billed projects.

This concludes my prepared remarks. I would be pleased to answer any questions that the Committee may have.

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

August 1, 1983

Dear Mr. Chairman:

The situation at Washington Public Power Supply System is complicated and its resolution is important to the long-term power needs of the Pacific Northwest. Treasury is anxious to work with the Congress to provide clarifying legislation to facilitate the completion of WPPSS Units 2 and 3. We share your sense of urgency in developing a solution that meets the needs of all parties, avoids a bailout of the creditors and equity holders, and minimizes Federal Government outlays.

Treasury has reviewed Section 317 of H.R. 3363 as reported by the Senate and S. 1701, which contemplates that ratepayers in the region that receive the power generated by WPPSS Units 2 and 3, and not the federal government, would be responsible for paying all costs associated with these two plants. This legislation would permit the Bonneville Power Administration ("BPA") to contract with a newly created entity to pay the principal and interest due on securities issued in the public credit markets by that new entity. This new authority would be used to enable completion of the two nuclear power plants (WPPSS Units 2 and 3). Treasury believes that it is important to assure investors and all those concerned with this matter that the intent of the legislation is not to extend federal involvement. Clarity here will help to avoid creating confusion about the intent of this provision. In our view, this purpose can best be secured if the modifications recommended below are adopted. Subject to these modifications, Treasury does not object to the proposed legislation.

First, since Treasury understands that the intent of the legislation is to make the ratepayers bear all costs associated with this project, Treasury believes an amendment that clarifies that intent is highly desirable. Such a clarifying amendment is enclosed herewith. The intent of this additional language, and of the legislative history language described below, is to ensure that no federal funds, in the form either of borrowings from Treasury or of appropriations, be used to complete the two nuclear power plants.

Second, to clarify this position, the following language should be added either in the Conference Report discussing this provision or in clarifying statements during consideration of this legislation:

> The Congress specifically intends that all of BPA's costs associated with the new financing for WPPSS #2 and #3 be recovered in BPA's rates by both BPA and FERC. Thus all funds needed to pay all costs associated with completion of these plants will be borne solely by the ratepayers, and the Administrator may not use funds from appropriations or from the issuance of securities to the Secretary of the Treasury pursuant to 16 U.S.C. 838k(a) to pay for any of the costs associated with completing WPPSS #2 and #3. Further, by incorporating by reference the limitations and restrictions set forth in 16 U.S.C. 839d(j)(1), Congress intends that any contract entered into by BPA shall be secured solely by revenues received by the Administrator from the sale of electric power and other services and that any such contracts or obligations are not, and shall not be construed to be, secured by the full faith and credit of the United States.

If these two conditions are met, the Office of Management and Budget has advised that there is no objection to Section 317 of H.R. 3363 as reported by the Senate and S. 1701 from the standpoint of the Administration's program.

Sincerely,

R. T. McNamar

R. T. McNamar
Deputy Secretary

The Honorable
James A. McClure
Chairman
Senate Subcommittee on Interior
  and Related Agencies
United States Senate
Washington, D.C. 20510

Department of Energy
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

OFFICE OF THE ADMINISTRATOR

JUL 18 1983

In reply refer to: BPA-APP

Honorable James A. McClure
Chairman, Senate Committee on
Energy and Natural Resources
United States Senate
Washington, D.C. 20510

Dear Senator McClure:

The Washington Public Power Supply System (WPPSS) presently does not have sufficient funds to continue construction of its 70 percent ownership share of Washington Nuclear Project (WNP) 3. WPPSS is unable to arrange conventional financing through the sale of bonds because of uncertainties created by WNP 4 and 5 and legal challenges to utilities' authority to participate in net-billing agreements. I have determined that it would not be prudent to use BPA's existing authority to use its revenues to fund the substantial cost for WNP 3 construction at this time. Although WPPSS also is unable to provide construction funds for WNP 2, I have determined that, if alternative financing is not available, it is prudent to use BPA's revenues to fund completion of that project.

The investor-owned utilities which own 30 percent of WNP 3 have suggested a new arrangement which they believe could result in a prudent financing. They propose that a new entity would be created to fund the cost of construction. The new entity would issue bonds, notes, or other evidence of indebtedness. The new borrowings would be secured by BPA's obligation to use its revenues to pay the principal, interest, and related costs directly to the new entity. The effect of this arrangement would be the same as the present arrangement for WPPSS to fund construction costs and for BPA to pay debt service on those costs. However, the method of payment would be different than is provided by net billing.

Whether or not BPA's present authority was intended to encompass the arrangement described by the investor-owned utilities, as a practical matter, financing is not available unless that authority is clarified by Congress. In response to their inquiry, I am requesting a clarification of BPA's authority to enter into the above-described arrangements to fund the construction costs of the net-billed projects. Before implementing such authority, BPA carefully would analyze the rate impacts of such a financing and BPA's requirements for the power from the projects.

Sincerely,

Peter T. Johnson
Administrator

The **Chairman**. Mr. Johnson, we have a vote occurring on the floor, and I think, in view of the nature of this hearing, of the subjects that are involved, it might be better for us to recess so that we all can go to vote and then return and resume rather than try to rotate and keep the matter going. I am afraid we would lose some of the opportunity for each of the members who are here to hear the questions and hear the answers so that they can assist in making that record and getting from you the information they think is essential.

I don't hear any objection to that suggestion. We will then stand in recess subject to the call of the Chair.

[Whereupon, a short recess was taken.]

The **Chairman**. The committee will come to order. A number of allegations have been made with respect to the current proposal, which is both the amendment on the floor and the matter pending before this committee at this time, one of which is that somehow the taxpayers of the United States are exposed to a greater risk of a demand for Federal assistance as a result of the passage of this bill.

Could you comment?

Mr. **Johnson**. Yes; I don't think that is the case. The Bonneville Power Administrator is instructed by law to set rates. It is self-financing, under the 1974 Transmission Act. We are instructed to set rates adequate to cover all costs, including the repayment obligations to the U.S. Treasury.

The **Chairman**. If this bill is passed, or the amendment on the floor is approved, and becomes law, it will give you the authority to enter into some kind of a contractual arrangement with a new entity and/or with the owner of the facilities; and if that process is successful, to the extent that a different entity than WPPSS could go to the financial markets and obtain money, which could then be used for the completion of units No. 2 and 3, would it be your intention to have a rate in effect that would generate sufficient revenues to pay all of the relevant costs?

Mr. **Johnson**. Yes.

The **Chairman**. If that is the case, in what fashion could the taxpayers become more liable than they now are?

Mr. **Johnson**. I know of none.

The **Chairman**. Isn't it a fact that if this—if there is no such amendment—if no such arrangement can be made, that it is impossible for Washington Public Power Supply System, under the current conditions to go to the market to raise any money to complete No. 3?

Mr. **Johnson**. At the present time, they are barred from the market. Investment bankers are unwilling to undertake an underwriting of their securities.

The **Chairman**. And if that is the case, what happens to the construction of No. 3?

Mr. **Johnson**. At the present time, it is moving toward a state of preservation, simply because of the lack of financing that has previously been available.

The **Chairman**. If this amendment or something akin to it is not passed, and you do move toward preservation of No. 3, is that a matter of a few days, a few weeks, a few months; or what is the timeframe which we might be looking at before No. 3 could be renewed?

Mr. JOHNSON. The recommendation that we made to the supply system because we were unable to finance or back up the financing by the supply system, was that they move toward a preservation on a wise and a sound business-like basis, for up to 3 years.

Now, that was an option that was available to us. It was not our preferred choice, but it was an option that was available to us because of our inability to finance. They have commenced to move down on that line on a responsible basis. There have been layoffs, and I think that it will take several months to reach that state of preservation.

And Mr. Mazur who is here, and I think will be testifying could explain in more detail precisely how that plan will unfold.

The CHAIRMAN. And if it reaches that point of preservation, it could maintain that for some period of time, and then at some future date, under some other arrangement, it could then be started again, perhaps?

Mr. JOHNSON. Yes; that is my belief. There are risks associated with this, but I think if it is done in a responsible and in a careful manner, that we would be able to restart the unit at some future date.

The CHAIRMAN. I have heard estimates that if that happens and it is down for a period of 2 or 3 years and then started again, that the additional costs imposed by that slowdown, the preservation and startup again could be as much as $500 million.

Is that an estimate that you have heard?

Mr. JOHNSON. I have heard numbers ranging all the way from $200 to $250 million, which are the estimated costs of ramp-down, demobilization, and then ramp back up again.

These are the incremental costs, in addition to all others. It would be identified specifically with the preservation, and then with the restart.

But if you commence to estimate inflation costs on those costs as well as on the remaining costs to completion, that number can escalate up—I have heard numbers as high as a billion dollars.

On a net present value basis, looking at these costs and revenues translated back to 1982 dollars, it will be slightly more expensive to engage in this preservation than to have moved forward as we originally planned to, to complete No. 3.

And I think that the additional cost estimated in that area, in that present value basis, to be in the range of $200 to $250 million.

The CHAIRMAN. Some have questioned whether or not if No. 3 is completed even on a slightly slower schedule, and it were stretched out, say, by a year, which I understand is maybe the optimum judgment, at least on the part of some, that if it were then completed, what would the date of completion be?

Let me turn that around. If we were to go full-blown, and had the financing, completed No. 3 on the original schedule, when would it be complete and operating?

Mr. JOHNSON. It would be operating in 1986.

The CHAIRMAN. And so, if they would stretch out for 1 year, it would be 1987; if we had 3 years, it would be 1989?

Mr. JOHNSON. That is correct.

The CHAIRMAN. And some have suggested that if it were completed as early as 1987, there would be no market for the power and therefore no reason to go ahead with construction under any circumstances for completion prior to 1989.

Have you done an analysis to determine whether or not the power could be sold, if there would be a market for that power, or if it is your expectation there would be a market for that power as early as 1987 that would be at least equal to the debt service requirement for that plant during 1987, 1988, and 1989?

Mr. JOHNSON. Mr. Chairman, I think that is a good question, and we have engaged in a number of studies together with other utilities in the region, and the regional planning council. It is our belief that we could sell the output of that unit. We did believe that we could sell the output of the unit on a sound business-like basis if it were completed in 1986.

I think that the costs that we have to look at are the incremental costs to completion. How much does it take us to complete the plant, and then bring it up to operating state, and then compare that against alternatives or the opportunity to sell at some price either export for a market like California, or otherwise.

And we believed on our last analysis that it could be done, and that market in California is competitive, we would obviously have to assess the circumstances that would prevail at such time as No. 3 is brought back up, and we would intend to do that.

The CHAIRMAN. Mr. Johnson, do you know the dollar amount of bonds issued by WPPSS with respect to each of the five plants?

Mr. JOHNSON. In case of units 1 and 2, it is something in excess of $2 billion each. That is the amount of debt that is already outstanding.

In the case of unit No. 3, I think it is in the range of $1.6 billion. Those are rounded numbers.

Senator GORTON. Excuse me, Mr. Chairman.

The CHAIRMAN. Senator Gorton.

Senator GORTON. That latter figure does not include the amount contributed by the investing utilities?

Mr. JOHNSON. Yes; that is correct. That is 70 per cent contributed by the Federal base system, by Bonneville.

The CHAIRMAN. So, there would be approximately an additional $600 million that has been committed to No. 3 to date?

Mr. JOHNSON. That would be my understanding. The 70 per cent interest is private.

The CHAIRMAN. About $2.2 billion, total?

And the estimate for the completion of No. 3 is $960 million of contributions of the noninvestor owned utilities?

Mr. JOHNSON. That is the 70 percent interest represented by the Federal base system.

The CHAIRMAN. And that plant is between 70 and 80 percent complete at the present time?

Mr. JOHNSON. 75 percent, yes.

The CHAIRMAN. No. 2 is about what percentage complete?

Mr. JOHNSON. No. 2 is about 98 percent complete.

The CHAIRMAN. And how much—is your estimate for the dollar cost of completion of No. 2?

Mr. JOHNSON. The range of $160 million is the amount that has been approved in the last budget.

The CHAIRMAN. Senator Gorton.

Senator GORTON. Thank you, Mr. Chairman.

Mr. Johnson, have you now been able to familiarize yourself with yesterday's opinion of the Comptroller General?

Mr. JOHNSON. Yes.

Senator GORTON. Relating to the completion of No. 2? I did note a footnote in that opinion—which makes the following statement:

> Since BPA presently proposes to fund completion of construction only for project No. 2, our opinion specifically addresses this project. We recognize, however, that the basic legal issues are not unique to project No. 2.

Is it your initial belief, at least, as a result of that opinion, that the same legal analysis would apply were you to determine that it advisable to complete unit No. 3 in the same fashion as unit No. 2 is now being completed?

Mr. JOHNSON. Yes.

Senator GORTON. But I take it, it is your view that that would not be a wise way in which to complete No. 3 because of a rather heavy burden in the short range that it would place on rate payers in the Pacific Northwest?

Mr. JOHNSON. That is correct. I appreciate the decision by the General Accounting Office. This was the authority that the Administrator believed he had initially; and I have used it in connection with the continued construction on unit No. 2 to completion.

I have also used it in connection with the orderly preservation of unit No. 3.

I think that while that authority exists, its use must be done within the context of prudent utility practice.

Senator GORTON. Exactly. And, Mr. Johnson, could you describe in your view, of the quality of the construction project on unit No. 3 during the last 2 or 3 years, since Mr. Ferguson became managing director of WPPSS?

Has that project been constructed during that period of time in an efficient and cost-effective fashion?

Mr. JOHNSON. Yes, it has.

The changes he made in the organizational structure, and in the reformation of contracts, I believe—and I have observed this with care—that the unit No. 3 became the yardstick plant.

It was represented to me as one that was copied and emulated by others throughout the country who were building a similar unit. It was on budget or actually below budget, modestly, and it was on schedule; in fact, ahead of schedule modestly.

This is to the credit of not only Mr. Ferguson, but to Don Mazur and the rest of the people who were managing that resource. It was looked upon by all of us, and is today, as a viable, sound generating resource to serve loads in the region.

Senator GORTON. And I take it, it is based on that opinion that you answered Senator McClure, that to close down construction on unit No. 3 for a significant period of time, and then to begin to ramp up again would be measurably more costly than to proceed with the construction on a continuous basis, even though you stretched out the completion date.

Mr. JOHNSON. Yes, in general. But, Senator, Bonneville is at this time, because I think it is the responsible thing to do, is beginning to assess various scenarios and alternatives that might arise. There is no denying that the cost of preservation, the ramp-down, the demobilization, the remobilization, the loss of continuity and management, are costs that are going to be suffered.

The degree to which we can mitigate those costs without placing undue upward pressures on rates, and in making certain that there is, without qualification or question in our minds the need for the power, and other appropriate utility considerations, then, yes, it would be in our best interests to continue No. 3 in an orderly fashion.

Senator GORTON. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Johnson, you, in your testimony, said that ways had to be found to assure that four and five bondholders and other interested parties connected with units 4 and 5 do not have a claim on funds generated by this new legal entity that has been created.

What advice do you have with respect to amendments that we might put in this bill, or that it actually might take to assure that 4 and 5 bondholders do not have a claim against funds generated by this proposed legal entity?

Mr. JOHNSON. At the present time, I am going to rely heavily upon the new commission established by the Governors of the State of Washington and Oregon, the Luce Commission.

I feel that they are in a unique position, to assess ways by which we can deal with the entire supply system difficulty.

Those problems remain, and I said that in my prepared testimony, the issue of the prospect of bankruptcy, even though it is not a probability, it is a possibility.

The attempts that will be made by the creditors of 4 and 5 to access the assets of 1, 2, and 3. I have nothing that I can recommend at this particular moment, but we are certainly thinking about the subject, and we are going to cooperate wholly with the Luce Commission in an attempt to come up with means by which we might deal with those problems.

Senator BAUCUS. Is it your view that we should do as much as we possibly can in this bill, to insure that the creditors of 4 and 5 do not have a claim against funds generated by this new additional entity that has borrowing authority?

Mr. JOHNSON. Well, I think the bill as it is written, speaks to that subject, and by creating this separate entity, and allowing that remittances be made directly to bondholders, contractors and other creditors. This certainly would serve the interest of the Federal base system and the investment that Bonneville has in the capacity of these resources.

Senator BAUCUS. I am not sure if I understood your answer. Would you try again, please?

Mr. JOHNSON. Maybe I should hear your question again, and—— [Laughter.]

Senator BAUCUS. I think you heard it. I mean, is it because you don't know, or you don't have a view?

The CHAIRMAN. Would you restate the question.

Senator BAUCUS. The question is: Is it the Administrator's view that we should, in this bill, make it absolutely certain, as much as we possibly can that the creditors of 4 and 5 do not have a claim against funds generated by this entity?

Mr. JOHNSON. Well, the drafting of this legislation, I will leave to the Congress. We support it, and I believe that it does address that problem. In my testimony I have said that I remained concerned about the threats against the Federal base system assets by the creditors of 4 and 5, and I have nothing more than I can suggest that we do at this time, in this legislation.

I think it has been characterized as a step in the direction of dealing with the problems associated with the supply system, and it is not a whole cure in and of itself.

Senator BAUCUS. But do you think it would be better if we tried to insulate 4 and 5 from 1, 2, and 3, or not?

I understand you are saying it is a step in the right direction, but I am just trying to determine how strongly you believe 4 and 5 are to be separated out.

Mr. JOHNSON. Well, I feel very strongly in the interest that the Bonneville Power Administration has in the capacity that is acquired through in the net-billed projects 1, 2, and 3, for one very simple reason: I need those resources to meet those loads placed upon the agency.

Four and five are plants that were under construction by the supply system, but in which the Bonneville Power Administration has no interest. The Federal Government has no interest, so, certainly, from a selfish standpoint, I am very concerned about protecting the interests of the Federal Government and of the region in the net-billed projects units 1, 2, and 3.

The CHAIRMAN. Would the Senator yield on that point?

This legislation is in the nature of enabling legislation. It doesn't construct the exact relationship that authorizes the Bonneville Power to contract with a different agency.

As I understand, or perhaps a better way to say that: it clarifies your authority to do so; it specifically gives you the authority to do what you might have the authority to do anyhow, but specifically does so.

I assume that in that process there would be negotiation with any new entity for the terms and conditions of that relationship with the new entity and the flow of financing that would come from the financial market through the new entity toward the completion of 2 and 3.

And I think the Senator asks a very good question, and I would rephrase it in a sense that in that—in conducting those negotiations, with the new entity and the owners of the facilities, would it be your intention to guarantee to the extent that you could do so, under existing law, that the flow of money would go into the completion of the plants rather than to the satisfaction of prior claims from the creditors on 4 and 5?

Mr. JOHNSON. That is correct. I would maximize the protection of the net-billed assets, units 3 and 2, whichever were financed through this new entity to the maximum degree possible.

The Chairman. I think it would also be fair to say that, if the Senator would yield further, would it not, that the net-billing contracts, in effect, give Bonneville the call upon the resource—that is the call upon the power output.

Bonneville does not become the owner of the plants; it has a call upon the power output from those plants. Is that correct?

Mr. Johnson. That is correct. We have a call upon the capacity.

The Chairman. And that the revenues generated are thereby within the first call of Bonneville?

Mr. Johnson. Yes, if I understand that question correctly.

The Chairman. Thank you, Senator.

Senator Baucus. Thank you very much, Mr. Chairman. I guess part of the question there, though, is what this maximum percent possible means?

And that is a phrase that I think is going to have to be clarified as we go along here.

Mr. Johnson, you referred to the Luce Commission, which will report by October——

Mr. Johnson. Yes.

Senator Baucus. Does that mean that we should not enact this legislation before we hear from the Luce Commission in October?

Mr. Johnson. I don't believe so. It is my understanding that the Luce Commission supports this legislation and feels that it will complement whatever they come up with. I think that they have been instructed and encouraged by the Governors to look at the whole supply system situation, which would include the net-billed projects. It is my understanding that that Commission at this time does not object to this particular action by the Congress.

Senator Baucus. Do you think it would be more prudent to wait until October?

Mr. Johnson. We support this legislation as it is written, and we think time is of the essence.

Senator Baucus. What different consequences would flow to ratepayers if this bill is enacted in September? Alternative two, if it is not enacted until January? Alternative three, a year from now?

Mr. Johnson. The longer the delay, the more the potential unfavorable impact on ratepayers.

I am preparing to deal with whatever authorities that may be clarified by the appropriate legislation will allow me to deal with this particular problem including the short-term financing if this becomes available; and I will just have to deal with it, at that time.

Senator Baucus. Have you done any studies to indicate what the probable effect on the ratepayers would be under those three alternatives? I am just curious whether your agency has done that or not?

Mr. Johnson. Not those particularly, but we are in the process of developing just such analyses.

Senator Baucus. And in what stage is that process?

Mr. Johnson. It is just beginning.

Senator Baucus. When will that be complete?

Mr. Johnson. We ought to have it done by the middle or the end of September.

Senator Baucus. OK.

Mr. JOHNSON. Let me describe them. There will be a dynamic flowing inquiry, not only by Bonneville but by others in the region, the private utilities, and the public utilities and the Regional Planning Council. We will be looking to seize whatever opportunity may exist to maximize the interests, of not only the Federal-based system, but the economy in the four-State region. It will be dynamic and changing as the events flow.

Senator BAUCUS. I hope it is dynamic. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Before turning to Senator Metzenbaum, might I make these letters a part of the record.

The letter from Governor Spellman.

One from Governor Atiyeh.

One from the Washington Public Power Supply System, Mr. Halvorson, Mr. Squire.

Pacific Power & Light.

One from Portland General Electric Co.

One from Puget Sound Power & Light.

One from Washington Water Power Co.

And a letter of the Northwest Power Planning Council.

All but the latter are endorsements of the proposed legislation, and the latter takes no specific position with respect to the legislation, but I want to highlight just a portion of that letter by reading that portion now.

> The Northwest Conservational Electric Power Plan adopted by this council on April 27, 1983, assumes that WPPSS 1, 2, and 3—WNP 1, 2, and 3—will be completed, and will be available to serve electric utility customers on schedule. The construction of WNP 3 is now being delayed because of financing problems. BPA is proposing to fund the completion of WNP 2 out of rates through June 1985.
>
> The Council's analysis shows that if the demand for electricity grows at a rate above the Council's medium low-growth forecast, and if WNP 1, 2, or 3 are not completed, the Region would be required to build additional power plants beyond those in the Council's Plan.
>
> The Council has estimated that the cost of building new power plants would be higher than the cost of completing the net-billed plants. We believe that there are substantial risks associated with mothballing WNP 3.
>
> The sources of the risk are (1) increasing the costs to complete the plant, to the point where it is not cost-effective; (2) increasing the possibility that technical or regulatory changes would make it harder to license the plant, and (3) increasing the financial risk borne by the sponsors of the plant.
>
> Given the position of what WNP 3 and the Council's plan, and the risks associated with mothballing of the plant, the Council supports efforts to find a way to continue the construction of WNP 3 and insure the completion of WNP 2.

Those are excerpts from the letter of the Northwest Power Planning Council sent signed by Daniel J. Evans, chairman of that council.

The entire letter, together with the other letters I mentioned will be made a part of the record in full at this point.

[The letters follow:]

State of Washington

JOHN SPELLMAN, Governor

OFFICE OF THE GOVERNOR

July 15, 1983

The Honorable James A. McClure
United States Senator
Dirksen Building, Room 361
Washington, D.C. 20510

Dear Senator McClure:

I understand that an effort is underway to resume construction of the WNP No. 3 project being built by the Washington Public Power Supply System.

I understand further that the proposal now being considered would assure the authority of the Bonneville Power Administration to enter into financial arrangements (similar to the arrangements under the present net-billing agreements) with third parties to provide the necessary funding for the completion of the project.

Please be assured that I am supportive of this effort to provide additional flexibility to the Bonneville Power Administration.

With best wishes,

Sincerely,

John Spellman

John Spellman
Governor

Legislative Building • Olympia, Washington 98504 • (206) 753-6780 • (Scan) 234-6780

VICTOR ATIYEH
GOVERNOR

OFFICE OF THE GOVERNOR
STATE CAPITOL
SALEM, OREGON 97310

July 18, 1983

Honorable James A. McClure
United States Senator
5229 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator McClure:

I wanted to inform you of my support for efforts currently under way that would provide additional flexibility to the Bonneville Power Administration to resume construction of WPPSS 3.

The proposal now being considered would give the Bonneville Power Administration the authority to enter into financial arrangements with third parties to provide the necessary funding for the completion of the project. This is similar to the arrangements under the present net billing agreements.

I hope you will look favorably upon this proposal as a way to resume construction of the project.

Sincerely,

Victor Atiyeh
Governor

VA:ah

Department of Energy
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

OFFICE OF THE ADMINISTRATOR

In reply refer to: BPA-APP

JUL 1 8 1983

Honorable Mark O. Hatfield
Chairman, Senate Committee
on Appropriations
United States Senate
Washington, D.C. 20510

Dear Senator Hatfield:

The Washington Public Power Supply System (WPPSS) presently does not have sufficient funds to continue construction of its 70 percent ownership share of Washington Nuclear Project (WNP) 3. WPPSS is unable to arrange conventional financing through the sale of bonds because of uncertainties created by WNP 4 and 5 and legal challenges to utilities' authority to participate in net-billing agreements. I have determined that it would not be prudent to use BPA's existing authority to use its revenues to fund the substantial cost for WNP 3 construction at this time. Although WPPSS also is unable to provide construction funds for WNP 2, I have determined that, if alternative financing is not available, it is prudent to use BPA's revenues to fund completion of that project.

The investor-owned utilities which own 30 percent of WNP 3 have suggested a new arrangement which they believe could result in a prudent financing. They propose that a new entity would be created to fund the cost of construction. The new entity would issue bonds, notes, or other evidence of indebtedness. The new borrowings would be secured by BPA's obligation to use its revenues to pay the principal, interest, and related costs directly to the new entity. The effect of this arrangement would be the same as the present arrangement for WPPSS to fund construction costs and for BPA to pay debt service on those costs. However, the method of payment would be different than is provided by net billing.

Whether or not BPA's present authority was intended to encompass the arrangement described by the investor-owned utilities, as a practical matter, financing is not available unless that authority is clarified by Congress. In response to their inquiry, I am requesting a clarification of BPA's authority to enter into the above-described arrangements to fund the construction costs of the net-billed projects. Before implementing such authority, BPA carefully would analyze the rate impacts of such a financing and BPA's requirements for the power from the projects.

Sincerely,

Peter T. Johnson

Administrator

**Washington Public Power Supply System**
P.O. Box 968 3000 George Washington Way Richland, Washington 99352 (509) 372-5000

Alexander Squire
*Deputy Managing Director*

JUL 2[illegible] 1983

July 15, 1983

Senator James A. McClure
Dirksen Senate Office Building
Room 361
Washington, D.C. 20510

Dear Senator McClure:

Carl Halvorson, the Chairman of the Executive Board of the Washington Public Power Supply System, has advised me that he has written to you relative to legislation to permit continuation of construction of plant WNP-3 at Satsop and to avoid potential impacts of the WNP-4/5 situation on the net-billed projects.

He has asked me to forward to you the enclosed Executive Board Resolutions Nos. 147 and 152 which cover Board actions in this regard.

Accordingly, copies of these resolutions are sent to you for your information in this connection.

Very truly yours,

A Squire

Enclosures:
  Resolution No. 147
  Resolution No. 152

cc: Mr. C. M. Halvorson, Chairman
    Supply System Executive Board
  Mr. D. W. Mazur, Managing Director

## EXECUTIVE BOARD

## RESOLUTION NO. 147

### A RESOLUTION DIRECTING THE MANAGING DIRECTOR TO SUBMIT A PROPOSAL FOR A THREE YEAR CONSTRUCTION DELAY OF PROJECT NO. 3 AND DIRECTING THE MANAGING DIRECTOR TO IMPLEMENT AN IMMEDIATE CONSTRUCTION SLOWDOWN

IT IS HEREBY RESOLVED by the Executive Board of the Washington Public Power Supply System:

1. The Managing Director has reported and the Executive Board finds:

A. The Supply System's financial advisor and the managing underwriters for Project No. 3 have advised the Supply System that it is not now possible for the Supply System to sell revenue bonds to continue construction of Project No. 3, and that the inability to sell revenue bonds is beyond the ability of the Supply System to remedy within a reasonable time.

B. The Administrator of the Bonneville Power Administration has informed the Supply System that the Bonneville Power Administration is not able to provide funds for continued construction of Project No. 3 beyond June 1, 1983 on its current completion schedule.

C. The Supply System has sought and is unaware at this time of any other source of additional financing so as to provide funds in amounts and at times required to continue construction of Project No. 3 on its current completion schedule.

D. The Administrator of Bonneville Power Administration has proposed that the scheduled date of completion of Project No. 3 be extended for a period of three years and that during the period of delay the level of construction work be reduced to the minimum consistent with the preservation of assets and licenses and the ability to resume construction at the end of such period.

E. The funds presently available to the Supply System, including investment income, for payment of the costs of construction of Project No. 3 are insufficient to pay current commitments together with the additional costs of slowing down construction and preservation costs. Delay of a decision whether to slow down construction would worsen the situation without increasing the prospects of a successful financing.

F. It would not be prudent for the Supply System to continue construction of Project No. 3 at present levels of effort and expenditure in the absence of an assured source of funds to pay the costs and expenses that would thereby be incurred.

2. The Managing Director is hereby authorized and directed to submit to the Owner's Committee pursuant to the Project No. 3 Ownership Agreement and to the Participants' Review Board pursuant to the Net Billing Agreements the Administrator's proposal that the scheduled date of completion for Project No. 3 be extended for a period of three years and that during the period of delay the level of construction work for Project No. 3 be reduced to the minimum consistent with the maintenance of licenses and the maintenance of the project in a state where full construction can be resumed at the end of such period.

3. The Managing Director is authorized and directed to implement an immediate slowdown of construction on Project No. 3 for a period not to exceed 30 days to the extent that construction can be slowed down without precluding completion of Project No. 3 within the total estimated cost and official schedule contained in the Construction Budget, Fiscal Year 1983 Update for Project No. 3, as adopted by the Executive Board on October 8, 1982.

4. The Managing Director is directed to continue to make every effort to obtain additional financing for continued construction of Project No. 3.

5. The action of the Executive Board taken at its meeting on February 28, 1983 directing implementation of a four-day work week for Project No. 3 is hereby rescinded.

ADOPTED by the Executive Board of Washington Public Power Supply System this 27th day of May, 1983.

Chairman

ATTEST:

Secretary

APPROVED AS TO FORM
AND LEGALITY:

Counsel

EXECUTIVE BOARD

RESOLUTION NO. 152

## A RESOLUTION DIRECTING THE MANAGING DIRECTOR TO IMPLEMENT AN EXTENDED CONSTRUCTION DELAY OF PROJECT 3

The Managing Director reports that on May 27, 1983, the Executive Board adopted Resolution No. 147 directing the Managing Director to submit Bonneville Power Administration's proposal for a three-year construction delay of Project 3 to the Project 3 Owners' Committee and directing the Managing Director to implement an immediate construction slowdown for a period not to exceed 30 days and to continue to make every effort to obtain financing for continued construction, and that such proposal was submitted to the Owners' Committee on June 1, 1983, pursuant to the Project 3 Ownership Agreement, and

The Managing Director further reports that on June 24, 1983, the Executive Board adopted Resolution No. 151, directing the Managing Director to propose revised Annual and Construction Budgets for Project 3 to the Project 3 Owners' Committee, the Bonneville Power Administration and the Participants' Review Board, pursuant to the Project 3 Ownership Agreement, Project Agreement and Net Billing Agreements, which budgets provide for continued construction of Project 3 on the current approved cost and schedule and payment of the Supply System's costs of construction by payments received under the Project 3 Net Billing Agreements, and that such budgets were submitted on June 27, 1983, and

The Managing Director further reports that efforts have been undertaken to secure either conventional or alternate sources of funding for continued construction of Project 3, which efforts have not yet been successful, and that the Managing Director and staff are unaware of any current source of funds to continue construction of Project 3 and have no expectation of securing any source of funds within a reasonable time in order to continue either full or partial construction, and

The Managing Director further reports that the Bonneville Power Administration proposal for a three-year construction delay and the Supply System's proposal for continued construction of Project 3 on the current approved cost and schedule have been disapproved by various parties pursuant to the relevant agreements, and

The Managing Director further reports that the funds presently available to the Supply System, including investment income, for payment of the costs of construction of Project 3 are insufficient to pay current commitments together with the additional costs of slowing down construction and preservation costs. Delay of a decision whether to slow down construction would worsen the situation without increasing the prospects of a successful financing, and

The Executive Board finds that it is unaware of any current source of funds for continued full or partial construction of Project 3 and that it has no expectation of securing any funds within a reasonable time to continue either full or partial construction, and

The Executive Board further finds that it would not be prudent for the Supply System to continue full or partial construction of Project 3 in the absence of an assured source of funds to pay the costs and expenses that would thereby be incurred and that it is in the best interests of the ratepayers to implement an immediate extended construction delay of Project 3, until an assured source of funds for continued construction of Project 3 is obtained; NOW, THEREFORE, IT IS RESOLVED that the Managing Director is directed to implement an immediate extended construction delay of Project 3 until an assured source of funding for continued construction can be obtained and to prepare and deliver a detailed implementation plan to the Executive Board consistent with the foregoing, and

IT IS FURTHER RESOLVED that the Managing Director is directed to continue to seek to remove the impediments preventing the Supply System from financing continued construction of Project 3, and

IT IS FURTHER RESOLVED that the Managing Director is directed to take all necessary steps to resolve the dispute regarding the disapprovals of the proposed Annual and Construction budgets through the processes prescribed by the relevant contracts, by agreement, or by litigation, as appropriate, and to report to the Executive Board at its next regular meeting.

ADOPTED by the Executive Board of Washington Public Power Supply System this 8th day of July, 1983.

Chairman

ATTEST:

Secretary

APPROVED AS TO
FORM AND LEGALITY:

Counsel

DANIEL J. EVANS
Chairman
Washington

Charles Collins
Washington

Keith Colbo
Montana

Gerald Mueller
Montana

NORTHWEST POWER PLANNING COUNCIL

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Robert (Bob) Saxvik
Vice Chairman
Idaho

W. Larry Mills
Idaho

Alfred A. Hampson
Oregon

Roy Hemmingway
Oregon

July 20, 1983

The Honorable James McClure, Chairman
Senate Energy & Natural Resources Committee
3102 Dirksen Senate Office Building
Washington, DC 20515

Dear Senator McClure:

The Council has been informed that efforts are underway in Congress which could facilitate continuing the construction of WNP 2 and 3.

WNP 1, 2, and 3 were acquired by Bonneville under the net-billing agreements prior to the passage of the Northwest Power Act and the creation of the Council. The Northwest Conservation and Electric Power Plan adopted by this Council on April 27, 1983, assumes that WNP 1, 2, and 3 will be completed and will be available to serve electric utility customers on schedule. The construction of WNP 3 is now being delayed because of financing problems; BPA is proposing to fund the completion of WNP 2 out of rates through June, 1985. The Council's analysis shows that if the demand for electricity grows at a rate above the Council's medium-low growth forecast, and if WNP 1, 2, or 3 are not completed, the region would be required to build additional power plants beyond those in the Council's plan. The Council has estimated that the cost of building new power plants would be higher than the cost of completing the net-billed plants.

We believe that there are substantial risks associated with mothballing WNP 3. The sources of the risk are: 1) increasing the cost-to-complete the plant to the point where it is not cost-effective; 2) increasing the possibility that technical or regulatory changes would make it harder to license the plant; and 3) increasing the financial risk borne by the sponsors of the plant.

Given the position of WNP 3 in the Council's plan and the risk associated with mothballing the plant, the Council supports efforts to find a way to continue the construction of WNP 3 and ensure the completion of WNP 2. However, we have not had an opportunity to review the specifics of the proposal, or to seek public comment on the Council's position regarding this legislation. We intend to prepare and submit comments on the provision under consideration by Congress. In addition, we believe that the details of any new financial arrangement should be reviewed by BPA, the region's utilities, the public, and this Council before BPA actually enters into any new commitment.

Sincerely,

Daniel J. Evans

Daniel J. Evans
Chairman

CARL M. HALVORSON, INC.
CONSTRUCTORS

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*Mailing Address*
P. O. BOX 1449
PORTLAND, OREGON 97207

July 15, 1983

The Honorable James McClure
Dirksen Office Building
Washington D.C. 20510

Dear Senator McClure:

I have been informed that there is presently a new effort underway to initiate legislation that would make it possible for WPPSS Nuclear Plant #3 to be ramped up from its present mothballed condition into a normal construction program.

It is further my understanding that the contemplated legislation would authorize Bonneville Power Administration to give direct guarantees of repayment to financial institutions who might advance funds needed for completion of the 70 percent Supply System participation in Plant #3 covered by the net billing agreement, and that such payments could be made directly to the funding institution.

It is also my understanding that the same mechanism would be available for funding the other net billed projects when such funding were desirable and needed.

I am sending you under seperate cover from Richland the two resolutions passed by the Supply System Executive Board dealing with the ramp down of #3. You will see from the language of these resolutions that the Executive Board is greatly concerned with the adverse effects on the region that will be incident to the mothballed project. Also, that the mothballing mode is to be in effect only as long as funds are not available for construction.

From my personal position, I am confident that massive societal costs are inherent in a prolonged shut down. Some of these costs have already been assumed with the ramp down that has been initiated. However, corrective action at this time by Congress could, to a major extent, mitigate the losses inherent in the actions that we were required to take.

Because of the factors set forth above, among other consideration, I do most certainly support the proposed legislation.

It is at this point almost a given, that this legislation, or other legislation correcting the present financing impediment, must be passed or we will be facing dry hole implication for Plants #1 and #3. This would be a dry hole of approximate 4 billion dollar dimension, as opposed to a 2.25 billion in the #4-#5 matter.

If you have any questions in regard to this matter, please do not hesitate to get in touch with me.

With best personal regards, I remain

Yours Very Truly,

Carl M. Halvorson

PACIFIC POWER & LIGHT COMPANY
920 S.W. SIXTH AVENUE • PORTLAND, OREGON 97204 • (503) 243-1122

David F. Bolender
*President*

July 18, 1983

Peter Johnson, Administrator
Bonneville Power Administration
1002 NE Holladay
Portland, Oregon 97208

Dear Peter:

Construction on WPPSS 3 has unfortunately been delayed while the Supply System and BPA explore the availability of sources for the continued financing of WPPSS's 70% share of that project. As you know, we strongly assert that construction on the project must resume, and we continue to remain ready to finance our 10% share of the project.

Clarification of BPA's authority to provide direct credit support for construction financing would assist in obtaining such financing. Although we believe that the Administrator presently has the necessary authority, we understand that BPA's authority to provide security for, and use its resources to repay, construction financing by an entity other than WPPSS is not without dispute by others. In any case, we support taking all appropriate steps to facilitate financing and resumed construction on WPPSS 3, including any helpful clarification of BPA's authority.

We have reviewed a draft of federal statutory and accompanying committee report language, both of which are enclosed, which we understand assists in such clarification. We request that the Administrator support the enactment of this or a substantially similar statutory provision by Congress.

Sincerely,

DF Bolender

PORTLAND GENERAL ELECTRIC COMPANY
121 S. W. SALMON STREET
PORTLAND, OREGON 97204
(503) 226-5822

ROBERT H. SHORT
CHAIRMAN OF THE BOARD

July 18, 1983

Peter T. Johnson, Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

Dear Mr. Johnson:

Construction on WPPSS 3 has unfortunately been delayed while the Supply System and BPA explore the availability of sources for the continued financing of WPPSS's 70 percent share of that project. As you know, we strongly assert that construction on the project must resume, and we continue to remain ready to finance our 10 percent share of the project.

Clarification of BPA's authority to provide direct credit support for construction financing would assist in obtaining such financing. Although we believe that the Administrator presently has the necessary authority, we understand that BPA's authority to provide security for, and use its resources to repay, construction financing by an entity other than WPPSS is not without dispute by others. In any case, we support taking all appropriate steps to facilitate financing and resumed construction on WPPSS 3, including any helpful clarification of BPA's authority.

We have reviewed a draft of federal statutory and accompanying committee report language, both of which are enclosed, which we understand assists in such clarification. We request that the Administrator support the enactment of this or a substantially similar statutory provision by Congress.

Sincerely,

Robert H. Short

PUGET SOUND POWER & LIGHT COMPANY
PUGET POWER BUILDING · (206) 454-6363
BELLEVUE, WASHINGTON 98009

OFFICE OF THE PRESIDENT

July 18, 1983

Mr. Peter T. Johnson
Administrator
Bonneville Power Administration
P. O. Box 3621
Portland, OR 97208

Dear Mr. Johnson:

Construction on WPPSS 3 has, unfortunately, been delayed while the Supply System and BPA explore the availability of sources for the continued financing of WPPSS's 70% share of that project. As you know, we strongly assert that construction on the project must resume and we continue to remain ready to finance our 5% share of the project.

Clarification of BPA's authority to provide direct credit support for construction financing would assist in obtaining such financing. Although we believe that the Administrator presently has the necessary authority, we understand that BPA's authority to provide security for, and use its resources to repay, construction financing by an entity other than WPPSS is not without dispute by others. In any case, we support taking all appropriate steps to facilitate financing and resumed construction on WPPSS 3 including any helpful clarification of BPA's authority.

We have reviewed a draft of federal statutory and accompanying committee report language, both of which are enclosed, which we understand assists in such clarification. We request that the Administrator support the enactment of this or a substantially similar statutory provision by Congress.

Very truly yours,

John W. Ellis

John W. Ellis
President

THE WASHINGTON WATER POWER COMPANY

*Electric and Natural Gas Service*

P.O. BOX 3727 • SPOKANE, WASHINGTON 99220 • (509) 489 0500

WENDELL J. SATRE
CHAIRMAN OF THE BOARD
AND
CHIEF EXECUTIVE OFFICER

July 18, 1983

Mr. Peter Johnson, Administrator
Bonneville Power Administration
P. O. Box 3621
Portland, Oregon 97208

Dear Mr. Johnson:

Construction on WPPSS 3 has unfortunately been delayed while the Supply System and BPA explore the availability of sources for the continued financing of WPPSS's 70% share of that project. As you know, we strongly assert that construction on the project must resume and we continue to remain ready to finance our five percent share of the project.

Clarification of BPA's authority to provide direct credit support for construction financing would assist in obtaining such financing. Although we believe that the Administrator presently has the necessary authority, we understand that BPA's authority to provide security for, and use its resources to repay, construction financing by an entity other than WPPSS is not without dispute by others. In any case, we support taking all appropriate steps to facilitate financing and resumed construction on WPPSS 3 including any helpful clarification of BPA's authority.

We have reviewed a draft of federal statutory and accompanying committee report language, both of which are enclosed, which we understand assists in such clarification. We request that the Administrator support the enactment of this or a substantially similar statutory provision by Congress.

Sincerely,

W. J. Satre

S.bw

The CHAIRMAN. Senator Metzenzaum.

Senator METZENBAUM. Mr. Johnson, do you think that BPA should set up a repayment schedule to pay back the Federal Government?

Now, there is no repayment schedule.

Mr. JOHNSON. By law, we are required to develop a repayment methodology that does have within it the requirement that the Federal indebtedness be paid off by the agency through its rates.

Senator METZENBAUM. Yes.

Mr. JOHNSON. But it is a flexible system.

Senator METZENBAUM. Very flexible. Has BPA made any payment to the Treasury in 1983, on the principal?

Mr. JOHNSON. None that I am aware of.

Senator METZENBAUM. In 1982?

Mr. JOHNSON. None that I am aware of.

Senator METZENBAUM. In 1981?

Mr. JOHNSON. I can't tell you that—I am not familiar with that.

Senator METZENBAUM. Will you make any in 1984?

Mr. JOHNSON. Yes.

Senator METZENBAUM. How much?

Mr. JOHNSON. The deferral that will exist will have accrued come the end of this fiscal period, 1983, and it is estimated at roughly $270 million. Most, if not all of that, will be repaid in fiscal 1984. By July 1985, we will be current, not only with the deferral, but also with our amortization, as prescribed by this repayment methodology, Senator.

Senator METZENBAUM. And is it correct that BPA pays WPPSS' obligations prior to the U.S. Treasury, prior to making its payments to the U.S. Treasury?

Mr. JOHNSON. That is correct.

Senator BAUCUS. Will you repeat that question? I didn't understand it.

Senator METZENBAUM. Am I correct that BPA pays WPPSS' obligation prior to its obligations to the U.S. Treasury?

Mr. JOHNSON. The answer is yes.

Senator METZENBAUM. And isn't there pretty much of a certainty that, if there is a new entity created that BPA will have to pay off the new entity prior to making its payments to the Treasury, that they would be in a preferential position?

Mr. JOHNSON. That is correct.

The CHAIRMAN. Please, will the Senator yield on that?

When you say prior, that means it is on a repayment schedule?

Mr. JOHNSON. With this indebtedness there will——

Senator METZENBAUM. Would the chairman be kind enough just to let me finish with the—and not try to interrupt me?

The CHAIRMAN. Of course. Sure.

Senator METZENBAUM. I think I am proceeding along the line if I could.

The CHAIRMAN. Of course. I withdraw the question.

Senator METZENBAUM. Thank you.

Then, doesn't the passage of this legislation impair your ability to meet your statutory obligation to make payments to the Treasury to the extent that there isn't enough money to pay both?

Mr. JOHNSON. No.

**Senator METZENBAUM.** Tell me why. If you have to pay off the new entity, prior to the Federal Treasury, why does the enactment of this legislation not impair that.

**Mr. JOHNSON.** I am required by law, as the administrator of Bonneville to set rates adequate to repay all costs of the agency. And that includes all, of not only costs on principal, but also interest costs to the U.S. Treasury.

**Senator BAUCUS.** Mr. Johnson, would you pull that mike a little closer, I am having difficulty.

**Mr. JOHNSON.** OK, thank you.

I am required to set rates at a level adequate to repay all of the costs of the Federal base system. In other words, the Bonneville Power Administration.

**Senator METZENBAUM.** But you haven't paid them anything in 1982 and 1983, have you?

**Mr. JOHNSON.** That is correct. It is true that for several of the last years, the agency has not been able to make its payments on some of the principal, and in some instances on the interest.

**Senator METZENBAUM.** Well, in June 1983, didn't FERC conclude that "given the substantial failure of Bonneville to reschedule its deferred principal and interest payments on a reasonable basis, it appears that this problem, if not corrected, would result in a failure of Bonneville to meet its statutory obligations."

Do you take issue with that?

**Mr. JOHNSON.** There is no denying that the rates which have given rise to the revenues of the agency in recent years past have not been adequate to pay all costs, including those payments to the U.S. Treasury.

But in that proviso, I think it says "unless corrected." And it is my commitment to correct that, as the Administrator and as a part of this administration. And I have taken some pretty hard steps to accomplish that.

**Senator METZENBAUM.** How much will you have to raise rates in order to do that?

What percentage?

**Mr. JOHNSON.** That is in the current wholesale power rate proposal process that is winding down at the present time adjusted new rates and will go into effect on the first of November 1983. I have in that proposal adequate funds to repay all costs of the agency including the $271 million estimated deferral, plus roughly that much again on principal payment by July 1985. This action will basically make BPA current with its repayment of the Federal investment.

**Senator METZENBAUM.** How much—what percentage increase in rates would that entail?

**Mr. JOHNSON.** Sir, that is already factored into my rate. And the rate increase this year, in our priority firm class of customers, which are the preference and priority customers—the public agency customers, is roughly 30 percent over what those rates were 1 year ago.

**Senator METZENBAUM.** How much more would you have to raise them to meet the new $1 billion obligation if this legislation was enacted?

Mr. JOHNSON. That would depend upon how that financing was shaped.

Senator METZENBAUM. And it is my understanding there have been discussions already had with bankers in connection with that financing—at least, I am advised to that effect. Based on that contemplated financing, which I think at one point I heard was to be a 5-year period, how much would you have to increase rates? Or, if I am wrong on my assumptions, be good enough to correct me as to what you know about the contemplated financing, if this legislation is enacted?

Mr. JOHNSON. I have not been a party to those discussions with the banks. However, Bonneville has been an observer in some of those discussions that have been held with certain commercial banks.

I might go back just a moment and explain that prior to the May 27, when I made a recommendation to the supply system that they move toward a preservation of No. 3 because I could not finance it; it was my full contemplation to finance Nos. 2 and 3 to completion. They were included in this same rate increase that is estimated to be 30 percent.

But at that particular time, it just happened that I could convert the moneys that would have flowed to debt service on this additional billion dollars of indebtedness instead to the completion of No. 2 and the preservation of No. 3 out of revenues.

Senator METZENBAUM. Didn't you say in the May 1983—May 26, 1983—report, the BPA is advising the supply system that financing for completion of construction of WNP at this time is neither available nor prudent to a conventional means from outside sources, or through BPA rates?

Mr. JOHNSON. That is correct.

Senator METZENBAUM. Are you now changing your—that position?

Mr. JOHNSON. Provided this legislation passes, and we can overcome the other circumstances which I have enumerated in my testimony; and financing becomes available; and that financing can be shaped and negotiated to terms and conditions in the best interests of the ratepayers of the region, then that would allow us to revisit that conclusion.

Senator METZENBAUM. Did you not also say at that time that "for these reasons BPA believes that the prudent course of action, by the supply system, is to delay ongoing construction of WNP 3 and to effect transition of that project to a preservation state as soon as possible"?

Isn't that totally contrary to what you are saying here today?

Mr. JOHNSON. No; it is in perfect synchronization.

I had made a conclusion that it was not a prudent business call to attempt to finance both No. 2 to completion out of revenues, and also No. 3. That was one option that was available to the Administrator. It was a judgment call I made after talking to a number of people, and—

Senator METZENBAUM. Was to delay ongoing construction which you called at that point?

Mr. JOHNSON. That is right. We recommended to the supply system that they delay the construction and move toward a preservation. That was after I had received advice from our investment bankers, the best in the business, that they would not undertake underwriting of net-billed bonds, so financing wasn't——

Senator METZENBAUM. Of what?

Mr. JOHNSON. Net-billed bonds. Undertake a financing of net-billed bonds.

Senator METZENBAUM. What are net-billed bonds?

Mr. JOHNSON. Those are the bonds issued by the Washington Public Power Supply System that carry, in effect, the guarantee of Bonneville, as prescribed by——

Senator METZENBAUM. But they would not accept those? That is what you had been advised at that point?

Mr. JOHNSON. The investment bankers, Solomon Brothers; Smith, Barney; Merrill, Lynch; and Goldman Sachs, said that with the impediment to finance existing at that time, they would not undertake an underwriting of net-billed securities, meaning that they would not move into a commitment to sell and market those bonds.

The CHAIRMAN. Would you allow me to clarify one thing?

Senator Metzenbaum. Sure, as long as I don't——

The CHAIRMAN. I don't want to interrupt, but net-billed bonds would be securities issued by the Washington Public Power Supply System?

Mr. JOHNSON. That is correct. They are issued by the Washington Public Power Supply System, but they carry a Bonneville guarantee.

Senator METZENBAUM. Now, you said in this report that you should delay construction. You didn't say it was conditional, or anything. For these reasons, you say, that the construction should be delayed and to put the project in a preservation status as soon as possible.

You said you came to that conclusion because the bankers told you you couldn't do otherwise; is that what you are saying?

Mr. JOHNSON. Now, the bankers said that they would not undertake this financing. I made a judgment call that it was not wise to attempt to raise rates, which would have been another 20 percent increase to finance No. 3 out of current revenues.

I am required to administer the affairs of the agency in a businesslike fashion, and that was a business decision.

Senator METZENBAUM. At that point, you were concerned as to what—were you also not concerned about the ability of BPA to undertake further financial obligations in connection with any new bonds?

Mr. JOHNSON. I was concerned, sir, about the degree to which the agency has been leveraged, through financing of the net-billed projects as well the debt that we owed to the Federal Treasury. I am husbanding, if you will, all my resources very carefully. I want to make sure that I don't unconsciously further exacerbate that leverage. I do not think that it is to a point which does not permit us to take down further financing if it can be determined to be prudent.

Senator METZENBAUM. Well, as a matter of fact, you also said in that report: "Given these circumstances,"—and you used the same phrase, "BPA must husband its fiscal resources and critically review any increase in financial exposure."

Now, that is in accord with what you just said, but it is the next sentence that I find to be relevant: "BPA's only choice is to reduce financial risk, and not further encumber the revenue-generating capability of the Federal System in the current circumstances."

Now, I have difficulty in reconciling that statement with the fact that you are prepared to undertake further obligations on the part of BPA, in connection with this legislation.

Mr. **Johnson**. Another 20 percent could have adversely affected loads of the agency, and that would not have been a prudent call. That is the reason I felt, and then used the expression that I——

Senator **Metzenbaum**. Well, where is the money going to come from if you don't increase rates? I am not clear in that. Where are you going to get the money to repay that extra billion.

Mr. **Johnson**. I have to clarify something here. There are two alternatives, that have been available to the Administrator up to this point in time. Either engage in long-term finance, or only pay debt service on the construction costs on a pro rata basis, or finance that out of, if you will, revenues. It would be the same as a private company financing out of equity.

The latter puts extraordinary pressure on rates in the near term; where the former does not. The former was not available to me. I felt the latter was excessive, and decided not to increase rates by this additional 20 percent, and maybe threaten loads on the Administrator, and place in jeopardy the resources of the agency and its fiscal viability. We husbanded all these forces and made the judgment call we did.

Senator **Metzenbaum**. I just want you to make this clear to me. Where do you get the money to repay the extra billion dollars which you—BPA will become obligated to; is that by an additional 20-percent increase on rates? Is that what you are saying?

Mr. **Johnson**. No, no, sir.

No, sir.

Senator **Metzenbaum**. Well, where is the money coming from?

Mr. **Johnson**. I have in the record at the present time—I think it is $262 million that was going to go between November 1 of this year and July 15, 1985——

Senator **Metzenbaum**. What is going to do——

Mr. **Johnson**. When we initiated our rate case, that money was going to go to paying debt service on roughly a billion dollars of financing under the net-billing arrangement and to complete and continue with the construction of 2 and 3.

That was not available to me, as I have explained; the investment bankers said, "We will not undertake an underwriting."

So, I took that same money, and I said, "OK, we will complete No. 2 out of revenues," this is a more onerous method by which one would proceed to complete a capital resource that you are going to amortize and get the benefits of, over time.

Senator **Metzenbaum**. Well, what——

Mr. **Johnson**. If this clarifying legislation becomes law, and we can overcome the difficulties that we all know still exist. I would engage in a financing again. The terms and conditions of that financing, I believe, could fit comfortably within the cash flow that I have designed under the current rate case.

Senator METZENBAUM. But I don't understand one simple thing. You are going to have some cash surplus, by reason of your increase in rates, if you are projected for November 1, 1983; is that correct?

Mr. JOHNSON. When you say, "cash surplus," I am not sure I understand what you mean. I cannot design surpluses into my rates.

Senator METZENBAUM. Well, you are going to have some cash flow?

Mr. JOHNSON. I'll have cash flow, yes.

Senator METZENBAUM. OK.

Now, then, either you are going to take that extra money, put it into construction costs for No. 2, or you could pay back the Federal Government, which some of us think you should do, or you would be using it for paying the debt service charges on the new financing where that would be possible under this legislation; is that correct? Are those the three alternatives, three places where you could spend the money?

Mr. JOHNSON. Not really. My rates are set to pay all costs on the Federal Treasury, not only catching up on the deferral, and the payments on principal. In other words, the amortization payments, as calculated by the repayment methodology, which I am instructed by law to administer.

So that is in my rate case, irrespective of what we do on Nos. 2 and 3. There are these moneys that could either be applied directly on a pay-as-you-go basis for the construction of No. 2 and the preservation of No. 3 or those same moneys would roughly cover debt service on a financing that would allow for the continued construction of both of them.

But, now, I am speaking in generalities, and this would be subject to careful assessment. This proposed legislation clarifies my authority instructs me to make a very careful, prudent utility analysis of what would be the best decision in the interest of the ratepayers, the Federal base system, and the U.S. Treasury.

Senator METZENBAUM. Well, again, isn't it a fact that either you repay the Federal Government or you pay the debt service charges on this new billion dollars?

Mr. JOHNSON. No, sir. We are missing someplace there in our communication.

Senator METZENBAUM. I confess; I agree with you we are missing someplace, because I came out of the business world, and I thought I understood two and two made four, and what a balance sheet looked like, but I am having great trouble in understanding how you are going to be able to not increase rates additionally, to pay this extra billion dollars, or fail to pay back the Federal Government the money you owe it, and I am not clear how you are able to do that.

Where is the money coming from?

Mr. JOHNSON. Well, I have attempted to respond to that, and I——

Senator METZENBAUM. Do it slowly.

Mr. JOHNSON. Do it slowly?

Senator METZENBAUM. I don't hear so fast.

Mr. JOHNSON. OK. OK.

In this current rate case, I have adequate moneys designed and programed to repay all of the costs to the U.S. Treasury; in addition to that, there is roughly $252 million that was originally set in there to cover debt service on roughly an additional billion dollars of financing, which was contemplated in January 1983. This was the preferred schedule to be pursued by the Administrator in protecting the investment of the net-billed plants.

I have had to back away from that because the investment bankers have said, "We will not undertake an investment, a sale of supply system bonds." So, I looked at alternatives. I took that same $250 million, and I said, "OK, we will preserve No. 3; we will not continue it at its same rate. Then I can take the remainder, about $160 million and put it on No. 2, and finance it to completion on a pay-as-you-go basis."

Senator METZENBAUM. So, therefore, you don't need this legislation if you are going to be able to pay it on a pay-as-you-go basis, will you?

Mr. JOHNSON. No, that is only on unit No. 2.

Senator METZENBAUM. Only No. 2?

Mr. JOHNSON. Yes. Now, there are———

Senator METZENBAUM. How much are you going to pay the Federal Government then?

Mr. JOHNSON. Excuse me.

Senator METZENBAUM. How much are you going to pay the Federal Government when?

Mr. JOHNSON. I am advised that the deferral is estimated as of the end of this fiscal period at roughly $270 million. That will be paid off mostly in 1984. Since BPA is required to pay deferrals first, amortization of the Federal investment will follow in the next fiscal year.

Then BPA will be caught up with its amortization and deferral payments by the end of fiscal year 1985.

Senator METZENBAUM. I have before me the Department of Energy Bonneville Power Administration budget sheet, and when it talks about amortization paid, it shows zero for 1984—you said $270 million.

Mr. JOHNSON. No, sir, I said repayment of the deferral is $270 million."

Senator METZENBAUM. Well———

Mr. JOHNSON. I must do that first because, that is failure on my part to pay interest upon interest. That call would be on wiping out the deferral, then I would move to amortization.

Senator METZENBAUM. So, you are not going to then be making any amortization payments in 1984?

Mr. JOHNSON. No, but it is only because of the need to first clean up the deferred payments, as I have described.

Senator METZENBAUM. It sounds like pretty fancy financing to me, Mr. Johnson, I'll tell you.

Thank you, Mr. Chairman.

The CHAIRMAN. I think he has stated what is needed for the record, but let me attempt to restate one thing because I think I understand what the Senator from Ohio is groping toward.

At the time the current rates were established, it was contemplated that No. 3 would be financed on schedule?

Mr. JOHNSON. That is correct.

The CHAIRMAN. And therefore the rates were sufficient to meet those costs of the debt service and repayment for the financing for the completion of No. 3?

Mr. JOHNSON. That is correct.

The CHAIRMAN. Subsequent to the establishment of the rate that would make that possible, you were advised it was impossible to go to the market, for WPPSS to go to the market, for the financing of the construction of No. 3.

You then——

Mr. JOHNSON. That is correct.

The CHAIRMAN. Is that correct?

Mr. JOHNSON. That is correct.

The CHAIRMAN. You then came to the conclusion that the same amount of money that was scheduled for the payment on debt service and repayment for the completion of No. 3, could be then used for the completion of No. 2 out of net revenues, and for the necessary costs for the preservation of No. 3, rather than for the completion of No. 3?

Mr. JOHNSON. That is correct.

The CHAIRMAN. And you now suggest that if some other way can be found to finance No. 3, that you would again revert back to the original plan of completion of No. 3, and your rates would be sufficient to cover that debt amortization.

Mr. JOHNSON. Senator, we would revisit that option and give it a careful analysis.

The CHAIRMAN. And would go ahead only if you could do it?

Mr. JOHNSON. That is only if it is a sound business decision and consistant with prudent utility practices. We believe that would be our preferred choice.

The CHAIRMAN. Apparently, you can do that without affecting your repayment of obligations to the Federal Government?

Mr. JOHNSON. That is correct, within the context of the present rate case.

The CHAIRMAN. I thank you very much. I think that clarifies the issue. I think I understand a little better why the Senator from Ohio was asking that question. It seemed to—perhaps the evolution of that matter needed to be laid upon the record as it now has been.

Senator Baucus? Any further questions?

Senator BAUCUS. No, Mr. Chairman.

The CHAIRMAN. Senator Bumpers?

Senator BUMPERS. Thank you, Mr. Chairman.

First of all, if I may, just suggest—are you Mr. Johnson?

Mr. JOHNSON. That is correct.

Senator BUMPERS. If you would, submit in writing your own answer to the line of question that you think Senator Metzenbaum was driving at? [Laughter.]

Could you do that for us?

Mr. JOHNSON. We would be happy to do that.

Senator BUMPERS. Let me just ask you two or three questions.

I am sort of a Johnny-come-lately on this, I want to protect the taxpayers of America, but I want to try to help the ratepayers and the people of the Northwest, too. I am trying to find where the happy medium is.

But, what is BPA's total indebtedness to the United States, as of this moment?

Mr. JOHNSON. In the range of $6 to $7 billion.

Senator BUMPERS. How long has it been that amount?

Mr. JOHNSON. It just recently increased because they are bringing on line the second powerhouse at the Bonneville Dam.

It has been at that level for some time, Senator, simply because, for all intents and purposes, we have fully developed a hydro potential of the Columbia River and its tributaries.

Senator BUMPERS. Now, as Administrator of BPA, are you directly under the control of the Secretary of Energy?

Mr. JOHNSON. Yes, I am.

Senator BUMPERS. When were these contracts between BPA and WPPSS entered into for the construction of these plants?

Mr. JOHNSON. I believe that they were entered into in the early 1970's. I can't give you a specific date.

Senator BUMPERS. That was back when the Energy Department was ERDA, maybe?

Mr. JOHNSON. It might have even predated that.

Senator BUMPERS. Even before that?

Mr. JOHNSON. I think Bonneville was part of the Department of Interior at that time, sir.

Senator BUMPERS. I assume, and I don't want to beat a dead horse—I assume that all these contracts were entered into and the guarantees given by BPA on the basis of a projected demand for power?

Mr. JOHNSON. Yes, that was a factor that came into account when engaging in those agreements.

Senator BUMPERS. What is——

The CHAIRMAN. Would the Senator yield?

Senator BUMPERS. Sure.

The CHAIRMAN. It is my recollection, then, if you or your staff could correct my recollection, that that net-billing contract arrangement was approved in an appropriation, by the 1971 Appropriations Act.

Mr. JOHNSON. That is correct.

Wasn't it two appropriations acts, 1970 and 1971? I don't know when the contracts were entered into, though, Senator.

The CHAIRMAN. Nineteen hundred and seventy-one was with respect to the Trojan plant, and 1972 was with respect to the WPPSS plants, or the other way around.

Mr. JOHNSON. OK. Let me introduce—this is Mr. Jim Luce. He is with our Office of General Counsel.

Senator BUMPERS. It was 1970 and 1971, I guess.

Mr. LUCE. Mr. Chairman, you are correct in your conclusion that the Appropriations Act of 1971 was the vehicle by which Congress approved the net-billing agreements. It did so at a time when it was clear in the region, to those who were reviewing those forecasts, that Bonneville would be entering a period in the ensuing years, where it would have a shortage of power, and it would need the resources that were to be provided by the net-billed plants, the plants that we are talking about here today, to meet the load growth anticipated within the region.

Senator **Bumpers**. What was that projection, incidentally, while you are there?

Mr. **Luce**. Senator, I couldn't tell you with any specificity exactly what the projection was, but I would say that within an historical context the framework was roughly this: That, we had anticipated that within the foreseeable future our ability to serve the needs of our preference customers, notwithstanding any other customers, would be diminished to the extent that we would be obligated to enter into an allocation method, by which we would allocate power to preference customers.

Senator **Bumpers**. Did WPPSS issue bonds? They issued separate bonds on each of these five units; did they not?

Mr. **Johnson**. Yes, they did.

Senator **Bumpers**. Now, was the original arrangement—was that approved by Congress?

The **Chairman**. The net-billing contract?

Senator **Bumpers**. Yes.

The **Chairman**. Yes. In the 1971 appropriations——

Senator **Bumpers**. You say, in the appropriations bill of 1971. So, Congress, at least, at that point, was sort of a willing conspirator. They agreed to let BPA back the bonds under this net-billing arrangement; is that right?

Mr. **Johnson**. Yes. That is correct.

Senator **Bumpers**. On 1, 2, and 3, yeah.

Mr. **Johnson**. That is correct.

Senator **Bumpers**. OK.

The **Chairman**. 1, 2, and 70 percent of 3.

Senator **Bumpers**. That's right, 100 percent of 1 and 2; and 70 percent of 3?

Mr. **Johnson**. That is correct.

Senator **Bumpers**. All right; now, that brings me down to the question I want to ask you—a couple of questions; and I don't have a lot.

What is the current ratio between supply and demand with BPA?

Mr. **Johnson**. We are in a surplus mode at the present time, with roughly 1,000 megawatts. That is regional surplus; and not only the loads versus resources of the Federal base system—but also the public agencies and the private utilities.

Senator **Bumpers**. Well, as I understand it, No. 3—as a matter of fact, Nos. 1, 2, and 3; and we are talking here about 3—is about a 1,200 megawatt plant; is that correct?

Mr. **Johnson**. Roughly, yes.

Senator **Bumpers**. How do you propose to dispose of that power if we do complete that, if you are in a 1,000 megawatt surplus now?

Mr. **Johnson**. Our forecast indicates that we will be meeting this——

Senator **Bumpers**. Incidentally, we have got some power in Arkansas that we will send you, if you run into a shortage, because we have got a similar problem?

The **Chairman**. Will you give it to us?

Senator **Bumpers**. No, we won't give anything away. [Laughter.]

Mr. JOHNSON. Our forecasts——

Senator BUMPERS. We may be dumb, but we ain't stupid; we're not going——

[Laughter.]

The CHAIRMAN. I just asked.

Senator BUMPERS. I'm sorry. Go ahead.

Mr. JOHNSON. The forecasts of the Bonneville Power Administration, the Regional Planning Council, the Pacific Northwest Utilities Conference Committee, all strongly suggest that we will be needing these resources in the late eighties and the early nineties. So given the uncertainties in forecasting, we think it is wise to proceed forward; it is always considered to be superior to be in a modest surplus situation than it is to be in a modest deficit situation.

We have been in a deficit situation for a number of years, and I don't think that is near as healthy as the otherwise.

So, at the present time, we would market the power that would be represented by No. 3 if it were to come on before it was actually needed.

We would sell that firm power, on an export basis, to utilities over our intertie into California.

Senator BUMPERS. All right, pending that time, obviously, if you could finish No. 3 today, you would, in fact, be in a surplus position, and according to your own projections, you would be in a surplus position until the late eighties?

Mr. JOHNSON. Toward the end of this decade, yes.

Senator BUMPERS. Right.

Now, the bonds that have been issued on No. 3—how long, and at what rate of interest were they issued?

Mr. JOHNSON. There is a whole package of indebtedness represented by the debt presently behind No. 3 because there have been financings over time.

Senator BUMPERS. Incidentally, how many bonds have been issued on No. 3 thus far?

Mr. JOHNSON. Something over $2 billion, but we went through this earlier.

Senator BUMPERS. I apologize for that.

Mr. JOHNSON. No. 3 is 70 percent owned by the Federal base system of Bonneville, and our investment represents some $1.6 billion, give or take. And the private utilities have likewise invested, in 30 percent, and that represents approximately $600 million. We have over $2 billion invested in unit No. 3.

Senator BUMPERS. Now, what was the interest rate that you are paying?

Mr. JOHNSON. The interest rate varies and I can't tell you precisely what they are, but I am sure it ranges under 10 percent. Some of the financings that has been issued by the supply system, and guaranteed by Bonneville, will be what the interest rate is on the debt that has been issued by the private utilities to finance their 30-percent interest.

Senator BUMPERS. All right, now, that means—now, you were obligated under the original contract for 70 percent of No. 3?

Mr. JOHNSON. That is correct.

Senator BUMPERS. And under this legislation that is being proposed here, you are going to be in a slightly different way in calling by different names, you are obligating yourself for an additional billion dollars, or the total 30 percent—now, wait a minute, it is 70 percent—how far is the completion on this?

Mr. JOHNSON. OK.

Senator BUMPERS. No. 3?

Mr. JOHNSON. It is 70 percent of the remaining costs to complete, versus 100 percent.

Senator BUMPERS. It is 70 percent complete?

Mr. JOHNSON. That is correct.

Senator BUMPERS. Then you are responsible for 70 percent of the total?

Mr. JOHNSON. That is correct.

Senator BUMPERS. All right.

The CHAIRMAN. Seventy-five percent complete.

Senator BUMPERS. Seventy-five percent?

The CHAIRMAN. Complete.

Mr. JOHNSON. It is 75 percent complete.

Senator BUMPERS. When it is complete.

Mr. JOHNSON. Excuse me.

The CHAIRMAN. It is 75 percent——

Senator BUMPERS. This is not that complicated.

The CHAIRMAN. Construction is 75 percent.

Senator BUMPERS. OK. Construction is 75 percent now?

Mr. JOHNSON. That is correct.

Senator BUMPERS. So, this billion dollars is going to finish it out, finish the remaining 25 percent of the construction, is that correct?

Mr. JOHNSON. Seventy percent of it; 70 percent of the remaining costs.

Senator BUMPERS. You were anticipating my question, Mr. Johnson. My question really is, the one I am trying to get to, and maybe this will help you is: Are you still only going to be obligated for 70 percent of the additional billion? Or all the additional billion?

Mr. JOHNSON. Only 70 percent of the additional financing necessary to complete the plant.

It is estimated that some $960 million is the 70 percent represented by the Bonneville interest.

Senator Gorton. And more will be contributed by the private utilities?

Mr. JOHNSON. That is correct.

Senator BUMPERS. So, you are increasing your interest in the original contract. You will still only be obligated for 70 percent of the completed plant?

Mr. JOHNSON. That is correct.

Senator BUMPERS. All right, now, has the financing been arranged for the remainder?

Mr. JOHNSON. What.

Senator BUMPERS. I mean—let me, will $1 billion finish the plant?

Mr. JOHNSON. That is our estimate at this time.

The CHAIRMAN. Is $1 billion to complete the plant——

Senator BUMPERS. I don't know whether to pay attention to the audience or not, but some of them are shaking their heads no, and you are saying yes.

The CHAIRMAN. A billion dollars is your 70—is the net billing, Bonneville's net-billing requirement, for 70 percent of the costs of completion?

Mr. JOHNSON. That is correct.

Senator BUMPERS. Well, I'm interested in that, Mr. Chairman, as to Bonneville's obligation, but I want to know, first of all, is it—am I correct in assuming that it is going to take $1 billion to finish the plant?

The CHAIRMAN. Now, let me—I have answered too quickly——

Senator BUMPERS. Or does that only represent Bonneville's 70 percent?

Mr. JOHNSON. That is correct.

The CHAIRMAN. That is only Bonneville's 70 percent.

Senator BUMPERS. All right.

That's not complicated. [Laughter]

And that's all I want to ask.

Now, where is the other 30 percent coming from?

Mr. JOHNSON. It will come from the private utilities who own the remaining 30 percent.

Senator BUMPERS. And, now, you are going to be incurring—actually, you are not doing anything under this legislation that you are not already doing under the original contract except you are just calling the entity by a slightly different name?

Mr. JOHNSON. That is correct.

Senator BUMPERS. Because WPPSS couldn't get any financing on its own?

Mr. JOHNSON. That's right.

Senator BUMPERS. OK.

And, so when you issue this additional—the additional bonds, a billion dollars worth of bonds, whatever they are, you are obligating yourself for what you have already obligated, roughly $1.6 and an additional billion, or $2.6 billion, and you are going to be obligated for roughly 10 percent interest on that, or $260 million a year.

And, yet, you don't propose to sell any of this power until the latter part of this decade?

Now, how are you going to do that?

Mr. JOHNSON. We contemplated that as this resource came on line, the power would be sold, so there would be revenues to offset those costs. We believe that there is a reasonable prospect of selling that power on a firm basis at not less than the incremental cost for completion; I don't want to get us confused again, and I will go back over that, if you would like me to.

Senator BUMPERS. Well, let me interrupt you, if I could.

If we were to pass this bill today and the President were to sign it, how long do you think it would take before that plant could be completed?

Mr. JOHNSON. Your question is, how long would it take before the plant could be completed? And I think more appropriate is, when would the parties in interest—i.e., the owners believe that it would be best to bring it online so that it would meet the test of prudent utility practice. There may be a modest delay associated with it.

Originally, it was scheduled, to come online in 1986. There may be a one-year delay; there may be reasons to conclude that we should bring it back up faster and conclude it sooner. There is also the possibility that it should be the desire of the parties to ramp back up more slowly, and bring it on more nearly in synchronization with the time that it would be needed in the region as based upon current forecasts.

We have to recognize the uncertainty in forecasts. They have clearly changed in the past both on the load and on the resource side. There is risk on the resource side. We are relying on a number of resources coming on line; and there could be difficulties arise in connection with some of those resources.

We are also anticipating that certain loads are going to develop and be maintained. With all of the uncertainties associated with that, I feel that to unduly delay, completion No. 3, may not be wise.

Senator BUMPERS. I'm not sure what you just said, Mr. Johnson. If you will, as I said in my first question—if you will submit this anticipated financing, when the thing would come on stream, what you hope to do with the power—if you would submit all that to us in writing, it would be helpful.

Mr. Chairman, I don't want to take any more time, because I know we are probably covering plowed ground, and I apologize for being late getting here, and I don't want to delay the committee which has probably already heard the answers to these questions, but let me just ask you one final question: On your testimony, as I read it, and I may have read it wrong, you do not want the U.S. Government to be obligated in any way for the payment of these bonds; is that correct?

Mr. JOHNSON. That is correct.

Senator BUMPERS. Now, Mr. Chairman, the legislation is yours. How is it now drafted? Does the U.S. guarantee the bonds?

The CHAIRMAN. Under this——

Senator BUMPERS. Under the bill?

The CHAIRMAN. No. Absolutely not. They are guaranteed by Bonneville Power Administration net-billing contract.

Senator BUMPERS. Now, of course, Bonneville Power is the United States; if Bonneville went into default, we wouldn't have much choice, would we?

The CHAIRMAN. No, as a matter of fact, it is clear, I hope, that the existing law says—and if I could read—staff is looking for the existing statute right now; I want to read it again, for the record. I read it on the floor, but I didn't read it here.

Senator BUMPERS. While the chairman is looking for that, let me ask you this, Mr. Johnson, how can you—how can you separate an entity of the United States, which BPA is, administered by you under the supervision—under the Department of Energy—how can you separate your obligation to repay the United States for all of the principal and interest that ultimately comes due—how can you separate that from this particular billion dollars, and the taxpayers of the country know that they are not going to be paying off that billion, and at the same time may be jeopardizing the rest of BPA's obligations, which they are obligated for?

Mr. JOHNSON. I think that's——

Senator **Bumpers**. Do you understand the question? It is a little convoluted.

Mr. **Johnson**. I think I do.

Senator **Bumpers**. Go ahead.

Mr. **Johnson**. It is very complex, and I think it might be better that I would answer that for the record.

[The requested information follows:]

I assume that you are asking whether BPA's obligations ro repay the U.S. Treasury for the federal investment may be jeoparidized by BPA's entering into an agreement to secure an additional billion dollars to complete construction of WNP-3. Were the Supply System able to complete construction of WNP-3 through conventional financing, the debt service payments would accrue to BPA as credits against customer bills through the net-billing agreements. Whether BPA pays these costs through net-billing, or pays them directly,to a new entity they have the same priority of payment. BPA is required by law to set its rates to recover its costs, including such costs necessary to repay the U.S. Treasury. These costs include the costs of WNP-3 whether incurred by BPA through net-billing or otherwise. Neither the mechanism which could be used to complete the construction of WNP-3 nor the terms and conditions of such mechanism are known at this time. In any case, none of these new arrangements foreseen by the legislation would be obligations of the United States. If BPA experiences a recurrance of costs exceeding revenues, and future deferrals occur, a DOE proposed amendment effective October 1983 provides that deferred Treasury payments will be assigned an interest rate reflecting Treasury borrowing rate for the year in which the deferral occurs. As a result, when BPA repays any additional yearly borrowing incurred by the Treasury, it will exactly compensate the Treasury for the increased interest expense related to that borrowing.

Senator **Bumpers**. That's really the key question as far as Senator Metzenbaum, who is your leading antagonist here

The **Chairman**. We'll file that response for the record when received.

Let me read for you the statute in which Bonneville operates.

Senator **Bumpers**. All right.

The **Chairman**. And the relevant statutory reference is in the Pacific Northwest Power Planning and Conservation Act, which is Public Law 96-501, dated December 5, 1980; and I'll read this portion of that statute.

> All contractual and other obligations required to be carried out by the Administrator, pursuant to this Act, shall be secured solely by the Administrator's revenues received from the sale of electric power and other services. Such obligations are not, nor shall they be construed to be, general obligations to the United States, nor are such obligations intended to be or are they secured by the full faith and credit of the United States.

The Department of the Treasury, speaking on behalf of the administration on the pending legislation and on the amendment which is pending on the floor by letter dated August 1, 1983, addressed to me, signed by Mr. R. T. McNamara, Deputy Secretary, asked that that reference be made specific in the pending matter; and the matter pending on the floor in the Interior appropriations bill is an amendment in the second degree to the committee amendment. It simply restates that as a matter of law, applicable to this proposal.

And with that, the Treasury supports, and the administration supports the passage of the amendment that is pending in the matter pending on the floor.

I would like also to refer here because I think, Senator, you put your finger exactly on the concern, and I hope to be able to answer that concern.

Refer to the Federal Energy Regulatory Commission's proceedings with respect to the rate structure of BPA, and I would refer to the entire order issued June 15, 1983, by FERC with respect to Bonneville's rates. They go into that at some length with respect to the rate structure, and whether or not the rate structure will be adequate and what the response of FERC would be if, as a matter of fact, the rate structure were not adequate to meet the repayment requirements.

And, finally, with respect to the marketability of the power, I would again read the section of the letter, which was written to me, dated July 20, 1983, by the Northwest Power Planning Council, which was created under the act to which I made reference a moment ago, and signed by Daniel J. Evans, chairman of that council, in which they said the council's analysis shows that if the demand for electricity grows at a rate above the council's medium, low-growth forecast, and if WPPSS 1, 2, or 3 are not completed, the region would be required to build additional powerplants beyond those in the council's plan; and that the council's plan assumes that 1, 2, and 3 will be built.

The council has estimated the cost of building new powerplants would be higher than completing the net-billed plants.

We believe that there are substantial risks associated with mothballing WNP 3. The sources of the risk are, one, increasing the costs to complete the plant to the point where it is not cost-effective; two, increasing the possibility that technical or regulatory change would make it harder to license the plant; and, three, increasing the financial risks borne by the sponsors of the plant.

Given the position of WNP 3 in the council's plan, and the risk associated with mothballing the plan, the council supports efforts to find the way to continue the construction of WNP 3 and insure the completion of WNP 2.

I know that the Senator has addressed both of those questions. I thought it might be helpful to restate those statutory and factual background, as an aid to answering the questions which he has posed here today.

I think they were very thoughful and very much at the heart of the controversy.

Senator BUMPERS. No. 2 is what? Ninety-seven percent?

The CHAIRMAN. Ninety-eight percent complete.

Senator BUMPERS. Ninety-eight percent complete? I didn't go into this with you a moment ago when we were talking about the supply and demand situation, but when you finish it, that is another 1,200 megawatts, and when you take that, and No. 3, that is 2,400 megawatts, and you stated a moment ago that you have a surplus of 1,000 right now.

So, we are up to 3,400 megawatts. That is an awful lot of power surplus right now.

Now, how much increase in supply is that for BPA? In other words, what is your power output right now? What is your capacity right now is the question?

**Mr. Johnson.** Well, our capacity to produce energy exceeds our demands for our loads at the present time in the region as a whole.

**Senator Bumpers.** I know, but what I'm asking you for, what is your capacity in megawatts on the system? Regional?

**Mr. Johnson.** 16,000 average megawatts.

**Senator Bumpers.** 16,000 and you have an excess of 1,000, so you are actually—you have a need right now for 15,000 megawatts, and you are going to add the 1,000 you have in surplus, plus another 2,400 or roughly 3,400 surplus. Do you think—that would represent, in order for your projection to come true, that would mean that you were going to have to demand for power on the Bonneville system was going to have to increase about 20 percent between now and the end of this decade?

**Mr. Johnson.** I think your calculation wouldn't quite fit the estimated load growth that we are seeing.

No. 2 coming on line in the spring of 1984, will add modestly to the surplus that presently exists in the region.

But that will be used up by load growth——

**Senator Bumpers.** Used up by what?

**Mr. Johnson.** Load growth; the increasing demands on the region's utilities, including Bonneville. As loads grow over the years based on our present forecasts it is contemplated No. 3 will be coming on at that time. You have to recognize that there are uncertainties in these forecasts; look at the forecasts that we made in the 1970's——

**Senator Bumpers.** I have.

**Mr. Johnson.** We have to have the ability to deal with variations that occur to both loads and resource availability.

Could I go back to something that you requested earlier, Senator Bumpers, that I will not be able to respond to?

**Senator Bumpers.** Sure.

**Mr. Johnson.** You said: Will you tell me what you plan to do now?

I do not have a plan now other than the recommendation that I made to the supply system, which is to preserve No. 3 in an orderly fashion. That recommendation was given on the 26th of May.

This is a clarification of my authority. It admonishes and instructs the administrator, to consider the prudency of the restart. Agreeing first with the other owners when that power would be needed as well as the constant finance, the impact on rates, and a number of other considerations.

I am modeling different alternatives at this time, such as the loads, resources, costs, and so forth, so that we will have developed a body of knowledge at such time as this authority may be available. I do not have a plan at this time and the region does not have a plan at this time.

It is contemplated under report language that this will be carefully assessed before a decision is made.

**Senator Bumpers.** Mr. Johnson, one final question. Do you think you could sell the bonds, or could you personally accept an amendment to this legislation saying that under no circumstances could BPA divert funds to pay off the bonds that are going to be guaranteed under this legislation as long as BPA is in deferment on its obligations to the United States?

Mr. JOHNSON. I think that would be a very serious impediment on those instruments. We have to recognize, Senator, that the arrangement that exists, and the repayment methodology fully contemplates from time to time, because of the dynamics of the hydrosystem, that it is vital for the administration to be able to defer principal payments as well as interest payments. It would not be a desirable amendment.

Senator BUMPERS. For very valid reasons, I would sense.

Mr. JOHNSON. That is correct.

However, I am determined to make whole obligations to the Treasury as I have explained to Senator Metzenbaum. I think such a condition on the instruments issued by this new entity that would condition those bonds, as you describe, would decrease their quality in the eyes of potential investors in such a fashion to where it may not be a viable alternative.

I don't think that would be appropriate simply because, the repayment methodology clearly contemplates a flexibility, as my working capital account. That is the administrator's only ability to cover contingencies that are unforeseen. There is no authority to put allowances for risks into the rates.

Senator BUMPERS. But you are not going to be able to defer anything, on these bonds? You are going to have to pay those bonds when they become due, and the interest?

Mr. JOHNSON. That is correct.

Senator BUMPERS. Thank you.

The CHAIRMAN. And it is correct, is it not, that even though there is a deferral of the obligation to repay the Federal Government, that deferral is simply a deferral; that accumulated deficit will have to be paid?

Mr. JOHNSON. That is right. It does not excuse the debt. It will be paid.

Senator BUMPERS. And the interest on interest?

Mr. JOHNSON. Exactly. And none of it is excused. And it will all be repaid.

The CHAIRMAN. Senator Gorton.

Senator GORTON. Just one further question. One billion six hundred dollars which has already been issued on No. 3, together with the roughly $2 billion each on No. 1 and No. 2 is now being repaid, is it not?

Mr. JOHNSON. That is correct. Payments are being made on that now.

Senator GORTON. Thank you.

Senator BAUCUS. Mr. Chairman.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. One final question, too. In answer to Senator Bumpers, you said that for all practical purposes, although there are probably some exceptions, that the U.S. taxpayers would be insulated. At least the statute that Mr. Chairman read is controlling, I am sure this is not black and white, but at least there is a strong argument that the U.S. taxpayers will be protected.

What about the ratepayers? Let's assume that the bonds are issued, and the legislation passes, the bonds are issued, and let's further assume—I don't know that it is going to happen, but sometimes these commissions do happen—let's assume big cost overruns; let's further assume that the judgments aren't as you would like them to be, and we are back again where we are now. What assurances do ratepayers of the Pacific Northwest have that they are not going to bear the brunt of all this insofar as taxpayers, or not?

Mr. JOHNSON. Senator, there is risk in everything we do. I think Senator Gorton asked earlier as to the viability, the health, and the degree to which we have a going concern in the supply system and in the construction of unit No. 3 at this time.

We have some of the finest men available in the country constructing that project at this time, so I believe that there is not unusual risk in continuing.

Senator BAUCUS. That is not the question I am asking you. I am not asking if there is going to be risk or not. I am asking what would happen to the ratepayers if the conditions outlined did occur? I am asking a different question from your answer.

Mr. JOHNSON. I thought you said for me to assume for a moment that there would be vast cost overruns, and I don't think that would be a proper assumption——

Senator BAUCUS. It may not be a proper assumption, but I want you to tell what the conclusion would be assuming my assumptions are correct. They may not be correct, and I hope they are not correct. But if they are correct, what is the conclusion?

Mr. JOHNSON. I think this goes back to the heart of this whole situation. Bonneville must set rates to recover all its costs. It has been doing that with the escalating costs of these net-billed projects from the beginning. They have increased many times in costs, and Bonneville has taken appropriate steps to increase rates to make sure that it covers those incremental costs. It has also been assessing the investments, in which the agency should commit moneys and revenues that ultimately have to be repaid to the ratepayers.

Senator BAUCUS. If this legislation were modified in some way to give greater protection, I take it to be a greater risk for the bondholders, assuming that the taxpayers would be insulated.

Mr. JOHNSON. I am not sure exactly what form that would take, Senator.

Senator BAUCUS. I'm not sure either. But I am trying to protect some ratepayers, who frankly have very little to say in all of this.

If it turns out and I don't know that this will happen, but if it turns out; it is possible, not probable, but possible, that there are overruns, and we are back in this mess again, then ratepayers are going to bear the brunt of it. I am trying to find some way to protect them, because they really have no say in any of this.

Mr. JOHNSON. They have more say now with the passage of the Regional Act than they perhaps have ever had.

Senator BAUCUS. Frankly, I am trying to give them still more say.

Mr. JOHNSON. I would never expect that they would not make their thoughts known. I have gone to rate hearings myself and listened to the testimony of—ratepayers and persons who had been adversely impacted by these large increases in rates that I have had to pass on. I am very sensitive to that, and have taken a lot of actions to attempt to keep costs down, to keep rates down.

Senator BAUCUS. Don't get me wrong. I agree with the general thrust of the legislation. But I am also trying to find a way to minimize the possibility that ratepayers and taxpayers are going to be footing an additional bill.

Mr. JOHNSON. I think that the most responsible thing, that not only I as the Administrator but the chief executives of the private utilities and the managers of the public utilities can do, is to make good, sound, timely, business utility decisions; and that is exactly what we will do with respect to unit No. 3——

Senator BAUCUS. I don't want to belabor this, but those good sound utility decisions are part of what got us into this mess. We are all trying to solve the problem.

The CHAIRMAN. Would you yield on that point, because I think the record might reflect something that you have said in a different forum, or several different forums at different times, if I recall correctly.

There is no question that the construction process suffered from lack of tight management, at an earlier period of time; and for a variety of reasons, and under a variety of different impelling forces, the Washington Public Power Supply System, together with Bonneville, has reorganized the construction supervision in the past.

And since that was done, the construction schedule was revised to reflect where you were at that time, but since that time, the construction of No. 3 has been ahead of schedule and below cost, am I correct?

Mr. JOHNSON. That is correct.

Thank you, sir.

The CHAIRMAN. Thank you.

Senator BUMPERS. Mr. Chairman.

The CHAIRMAN. Senator Bumpers.

Senator BUMPERS. Mr. Johnson, under this proposed legislation, could this entity also be used to borrow money to finish No. 1?

Mr. JOHNSON. There is a clarification of existing authority, and there is nothing in the language as it is written that would preclude my using this authority with respect to unit No. 1.

Senator BUMPERS. So, the answer is Yes?

Mr. JOHNSON. Yes.

Senator BUMPERS. It should be.

No. 2, as I understand it, there is about—WPPSS has issued about $6 billion worth of bonds so far, on 1, 2, and 3; that is the present obligation of BPA?

Mr. JOHNSON. Roughly, Yes.

Senator BUMPERS. Now, my next question is, under this entity, assuming you borrowed enough to finish No. 1 and No. 3, I mean the other one is 98 percent complete, so forget it—let's say you borrow an additional $3 billion, under this legislation. Who would have a superior lien, the people that you now owe the $6 billion to, or the people who bought the bonds under this new entity?

Who would have first claim on BPA's revenue?

Mr. JOHNSON. I think that is a matter that would turn on the instruments that would be issued by the new entity.

We have to recognize that Bonneville is obligated to pay all of its obligations. It is obligated to pay the debt service, and ultimately to retire the net-billed bonds. They are in a unique situation through the net-billing arrangement, because moneys come from our customers; our public agency customers direct to the supply system so they can, in fact, be used to pay that debt service. Bonneville never sees it; it does not come to Bonneville first. They net to us the difference, so that gives them a very secure position.

Senator **Bumpers**. Would you not admit, though, that that is a minor problem here that is going to have to be worked out before you can sell those bonds?

Mr. **Johnson**. Yes, that is going to have to be dealt with and the design and the terms and conditions that will control.

Senator **Bumpers**. Well, one of the reasons, if I am lenient at all, I am leaning in favor of doing this, because if you don't get these plants completed and sell some power you are obligated for $6 billion whether you ever generate a kilowatt or not.

Mr. **Johnson**. That is correct, and it has been clearly pointed out, by reference to the Regional Planning Council's plan that we do need these generating resources, together with conservation, and together with the renewable resources. If we don't get those things, we'll have to go to alternative generating resources, coal or other nuclear; and those costs will be many times greater than the incremental costs for the completion of these.

And that would be an incredible burden on the Pacific Northwest economy.

Senator **Bumpers**. Well, I don't see how on earth you can do it without—Senator Baucus, in his statement, said that in Montana, some rates have gone up fivefold, and in some cases even as much as twelvefold. I don't see how BPA can even begin to handle this staggering debt. That is not my problem, but if I lived in the BPA region, I would really be more concerned about that than anything else, and, that is, what the effect of all this is going to have on rates out there.

I mean, you may just burden the ratepayers to the point that they simply can't handle it.

Mr. **Johnson**. Senator Bumpers, could I just speak to that a little bit?

Senator **Bumpers**. Sure.

Mr. **Johnson**. The shaping of the debt service on these net-billed projects is such by contract and the provisions of those bonds. It came due at a time before they were generating power.

So, Bonneville's rates had gone up 1,000 percent, tenfold; and that has truly impacted the region's economy, and to our public agency customers.

That has modified loads, and had significant impact, but that is a fact.

The **Chairman**. Thank you very much.

Any further questions?

[No response.]

The **Chairman**. If not, thank you very much, Mr. Johnson. We appreciate your testimony here today, and appreciate the struggles with which you have been confronted ever since becoming Administrator to the BPA.

Thank you very much.

We will next hear from a panel composed of Robert Dilger, executive secretary, Washington State Building and Construction Trades Council; Rick Bever, legislative consultant to the Washington State Plumber and Fitters Association; and Dan Mundy, director of legislation for the building and construction trades department, of the AFL-CIO of Washington, D.C.

Let me, say before calling up other witnesses, express Senator Jackson's regret that he was called away, and he requested specifically that the record reflect that. It was a Defense authorization conference going on right now between the conferees of the Senate and the conferees of the House. That is a very important piece of work also, and his presence is required there; and he apologizes to you, gentlemen, for his necessary absence at this time.

Mr. Dilger.

Mr. **Dilger**. Thank you, Mr. Chairman.

Sir, we still have with us Senator Gorton, who is also from Washington State. We are pleased to have him here, and also are pleased to know, Senator, that you have cosponsored this legislation and us in the labor movement, and I think the ratepayers and all are going to be very thankful to you, and to you, Senator, for allowing this piece of legislation to do what it is going to do.

Now, it is a chance to get us back on schedule on these plants for everybody's benefit.

For the record, we have two statements that have been presented to the committee. We have testimony from myself and Mr. Dick Bever, and we also have a statement from Marv Williams, who is the president of the Washington State Labor Council, and we would like those, if it is allowable to be entered as part of our testimony.

The **Chairman**. They will be made a part of the record.

Mr. **Dilger**. Thank you.

## STATEMENT OF ROBERT L. DILGER, EXECUTIVE SECRETARY, WASHINGTON STATE BUILDING AND CONSTRUCTION TRADES COUNCIL, OLYMPIA, WASH.

Mr. **Dilger**. I would like to start off, and then would allow Mr. Bever to have a few words, and Dan Mundy, who is the director of legislation for the building trades department here in Washington, D.C.

I would just like to be as brief as I can. I know the hour is getting late; and we have heard an awful lot of testimony. You have heard the reasons why they feel these plants are needed, what would happen in the overall picture in the State of Washington, and in the Pacific Northwest.

I would like to talk just a little, if I might, about the economic conditions in the State of Washington, and the unemployment problems, we are now facing, and this is also true for the entire region.

We are facing still over 10 percent unemployment in the State of Washington. In the construction industry, and some areas were running over 50 percent. We also feel that each job that is lost through construction, the statistics tell us there are another three jobs that are lost in other types of industry—suppliers or manufacturers or just plain people who deliver groceries or candlestick makers and those types.

So, you can see the effect this has had upon the region, and upon the State of Washington, and upon our industry in particular.

When we started the plants over just—I don't mean just at the start of the plants, but over just 1 year ago, there were some 15,000 people employed, in connection with the project. We are now down to 1,100, so if you would multiply that back to what we talked about by 3 people affected for each 1 that was lost, you can now see what has happened.

You are now considering before you all types of legislation. You are talking about getting people back to work, job programs. You are talking about what to do about people who are running out of benefits in unemployment; people who run out of benefits in medical; and, of course, these types of things are going to continue as long as we have the types of unemployment.

We think that S. 1701 will do much to alleviate that problem. We also believe that the amendment that you have on the appropriations bill is proper, and will—if it should become part of that appropriations, would do it in a quicker, in a faster manner, and we would like to see that happen, but we would like to see it happen in any regard, in any way that it could possibly be accomplished.

As I said, the entire labor movement in the State of Washington is on record in their support of this legislation, and when I say that, I am talking about the largest labor group in that State, the Washington State Labor Council, and the State Building Trades Council, and also the Teamsters, who want the completion of those plants.

So, we want to bring that message. We are just not talking about the workers on that site. We feel that this is not a bailout; we are not back here asking for a bailout; we are not here with our hat in our hand, hoping that you will fill it full of money. I think that has been plainly testified to. This gives us the ability in the region to solve our own problems in this dilemma, and I believe we can do so.

One of the Senators asked a question, what do you feel that the obligation to the Federal Government is?

Or the cost to the ratepayers to the Federal Government, or to the Bonneville Power Administration? Well, you know, part of that whole thing has been also, and I don't think it can go unnoted, is the fact that the Nuclear Regulatory Commission, which is also a governmental entity, passed on to the people who were constructing these plants and other plants just all types of regulations and conditions that made it literally impossible to stay on a construction time basis.

And too, those regulations have cost an awful lot of money, and that has to be borne by the ratepayers. We believe that this legislation will benefit the ratepayers more than it benefits anybody else; and we are part of the ratepayers, and our people are ratepayers. I have 60,000 members in the State of Washington, and they pay rates either to the private or to the public power entity in our State.

One last thing I would wish for you to consider is not to get confused with the people who are back here that will tell you or try to get you into a turf fight between public versus private in the State of Washington; or the people who are absolutely no brokers in our State—they want to see no type of construction, because you know that is a little bit of what is happening here.

You know it is hard for us, the people who try to make a living. We are also taxpayers; we are also ratepayers. You see that type of thing happening, and we wish you wouldn't get involved in that type of turf fight, because that is what it is coming up to be.

I have nothing further.

The **Chairman**. Mr. Dilger, thank you very much.

Mr. Bever.

Mr. **Bever**. Thank you, Mr. Chairman.

## STATEMENT OF RICHARD D. BEVER, LEGISLATIVE CONSULTANT, WASHINGTON STATE ASSOCIATION OF PLUMBERS AND PIPEFITTERS, OLYMPIA, WASH.

Mr. **Bever**. Members of the committee.

As all of us have said, WPPSS is not a jobs project; it was never meant to be and that is not the way we look at it, but termination has costs, and one of the costs that has to be considered is the loss of jobs.

Not just in the short term, but in the long term.

We believe that failure to complete these plants, and pay our obligations will have long-term effects on future jobs, because higher interest rates will result on bonds, issued by all Government entities, certainly in the State of Washington. Probably throughout the region, and perhaps throughout the country.

No one really knows what effect a default of that magnitude could have; it has never happened before.

Fewer bonds being sold because of the higher interest rates, or those that are sold, the projects may have to be scaled down because of the higher interest rates that have to be paid.

A result in fewer construction projects and of course, fewer constructions result in fewer jobs for construction trades workers.

I happen to serve on a city council in a small city of about 14,000 in the State of Washington, and we met recently as a Regional Planning Council for Thurston County. We have real concerns, about what is going to happen on bond issues that we have coming up shortly.

The city of Lacey, where I happen to be involved, plans to build a new police facility this year, and perhaps next year or the year after a new library. We may not be able to do that. It is a real concern for us.

We believe that the reliance by the Power Planning Council on conservation is an overreliance on one particular facet of their plan. That same Regional Planning Council that discussed their problems with increased interest rates also expressed very grave doubts that the level of conservation contemplated in this plan can really occur.

And you are talking about the people that have to make that occur. This plan is great. Conservation is good, but it relies on entities that the Northwest Power Planning Council has no control over, to make it happen. That is local governments, the State legislature. Bonneville has lists of things it has to do in here.

Making all that happen and making it happen in the way that will result in the conservation they are contemplating in the time limit they are contemplating, I really believe it has holes big enough to drive a nuclear powerplant through.

Satsop is located—that is plant 3; it is located n a little community of Satsop in Grays Harbor County in the State of Washington—has had a—the closing down of that plant has had a devastating effect there, and if you will look at our written testimony, we have outlined most of those problems, but just let me say, as far as plumbing and pipefitting, which includes welders, is concerned, that is 1,000 jobs that our people have lost there.

We have 75 percent unemployment in our craft in that part of the State of Washington.

There are no other jobs to go to. The State of Washington has a 10.9 percent unemployment rate. It is the 10th highest in the Nation in unemployment right now. That is the latest figures we were able to get before we started out here this week.

We believe that some settlement of the differences of the parties involved in this is going to have to be—I don't want to say forced, but someone has got to take some leadership, and say, here is a solution; now, let's go after it.

We have groups—antinuclear groups who just want to see this thing fail and don't care about the consequences, because they are that dead set against nuclear power. We have got ratepayer groups who I believe had been misled, and are convinced that if they can bankrupt this system, that frees them of the debt, they don't have to pay the bill. They just don't realize the money has been spent, and they are going to pay for it, one way or another, whether there is a hole there or whether there is a generating facility there. That money is going to be paid.

They are not going to compromise; neither are the antinuke people, and I don't know whether we have got that big a problem between public and private power—I hope not.

But someone has got to do something, and I think perhaps the Federal Government is the place to start. We do have quite a few people who want to see this problem resolved. There are a lot of taxpayers and ratepayers who do realize the true cost of walking away from this without finishing it.

And of course the bondholder, many of whom have, and we are starting to hear real horror stories there, in the news media, of people who have sunk their life savings into these, they thought, secure bonds that would be their retirement income, and they are seeing them go down to 5 cents on the dollar in value, and then they are being wiped out.

And of course, the workers are certainly concerned.

Why are we asking the Federal Government for help? From what I have already told you, I think there are a couple of other reasons. Bonneville played a major role, as they have admitted getting us into this by their projections in the seventies as to what the need for power would be.

Now, we are not trying to place blame; there is enough blame in the WPPSS situation to go around for everybody; but certainly the

Federal Government did have a role in getting this whole thing started, and hopefully you are going to have a role in helping us get out of it—helping us help ourselves.

Now, of course, there is a sizable Federal investment of money in these plants, already, as you are well aware. We happen to believe that we have a moral, if not a legal, and I think we do have a legal, and perhaps the U.S. Supreme Court will tell us that, obligation to pay for these plants.

And we should do it.

We support your Senate measure 1701 as the best way we have seen so far to resolve these many WPPSS problems, and we will be behind you 100 percent.

Thank you.

The CHAIRMAN. Thank you very much.

[The prepared statements of Mr. Dilger, Mr. Bever, and Mr. Williams follow:]

TESTIMONY ON S. 1701 AND MCCLURE AMENDMENT
TO INTERIOR APPROPRIATIONS BILL - SUBMITTED
TO SENATE ENERGY COMMITTEE ON WEDNESDAY,
AUGUST 3, 1983.

Our testimony today concerns itself mainly with WPPSS Plants 2 and 3, which are currently under construction and are both plants having major federal investment funds at risk.

Our concern is over the loss of jobs being suffered now because of termination of construction on Plant 3 and the domino effect it will have on Plant 2, and over the long term effect on the economy of Washington State and the whole Northwest region resulting from failure to provide the energy resources needed for future industrial and residential development.

Prior to halting Plant 3 construction, Plants 2 and 3 each employed over 4,000 people. Plant 3 was expected to continue to employ that number through 1985. Plant 2 is nearer completion and is phasing down employment beginning next year, at the rate of about 400 employees per month. Each of the plants payed a weekly payroll of millions of dollars. What is going to happen if these plants are not completed?

Instead of 8,000 people spending millions of dollars each week in the local and state economy, we will add thousands to the unemployment rolls. We will be converting productive, taxpaying citizens into non-productive, tax draining citizens. Local businesses will have to lay off employees who are no longer needed because of the reduced economic activity. Costs to the state's unemployment compensation fund, already going broke, will increase drastically. The state will pass on those increased unemployment costs to employers and employees still lucky enough to be working.

Instead of two projects paying 60 to 70 million dollars in taxes each year, we will have useless, abandoned hulks draining tax money to pay already incurred debts, with no possibility of ever generating electricity which could be sold to help pay those costs. The loss of tax revenues to the state and its political sub-divisions will result in further unemployment and higher taxes. In Grays Harbor County, for instance, 80% of sales tax revenue came from WNP-3 activities. Grays Harbor County officials were predicting tax revenue of 2.4 million dollars from WNP-3 in 1983 if the project had continued at its planned level. County

Commissioners have already put 1.2 million dollars of that expected revenue in their 1983 budget. If that revenue fails to materialize, Grays Harbor County will have over a million dollar budget shortfall. This will mean cutbacks in county programs and the layoff of county employees. Grays Harbor County has a June, 1983 unemployment rate of 14.6% (statewide, June, 1983 figure is 10.9%): Washington State has the 10th highest unemployment in the nation.

Benton County has no firm projections of expected tax revenue from WNP-2 during the 1983 period. Since WNP-2 is largely already constructed, it is not generating the taxes that WNP-3 was generating. Currently, there are about 4,000 people working at WNP-2. This will be phased down to about 2,500 by December of 1983. The Benton County area will certainly feel any further reduction of employment in that area.

Other taxing districts, such as school districts, also stand to loose a significant amount of tax revenues if WNP-2 or WNP-3 are not completed. The state of Washington was expected to get between 20 and 25 million dollars in taxes from WNP-2 and WNP-3 combined in 1983, or about 50 million dollars for the next biennium.

Unemployment in the building trades crafts is running close to 50% in Washington State. We need the jobs associated with the completion of WPPSS Plants 2 and 3. Our State Employment Security Department estimates that for every construction job there are 2 to 4 support jobs created. This is vital to our economic recovery.

We are very concerned at the long range implications of failure to complete WPPSS Plants 2 and 3. Our Northwest Regional Power Planning Council has included the power expected from Plants 2 and 3 in their long-range plan for our area. A plan which, in the opinion of many, already puts far too much reliance on future conservation of power. Conservation provides little skilled employment and is difficult, if not impossible, to achieve except through price increases. It is exactly this issue of power price increases which all the ratepayer groups are fighting WPPSS about.

We believe there will be a need for all of the power produced by Plants 2 and 3. We have a history of underestimating our power needs. About 50 years ago when our great northwest hydro-electric dam projects were being proposed, critics claimed there would never be a need for the amount of power to be generated. They asked if we were going to sell our electricity to the jackrabbits. We all know the great benefit our hydro power has turned out to be. We have some of the lowest power costs in the nation and we will continue to have some of the lowest power costs even after completion of WPPSS 2 and 3.

Without the power represented by these plants there will be no long term industrial development, no related residential and commercial development and no jobs in the building and construction trades.

Thank you for the opportunity to offer this written testimony.

Jointly submitted by:

Robert L. Dilger
Executive Secretary
Washington State Building and Construction
Trades Council

Richard D. Bever
Legislative Consultant
Washington State Association of Plumbers
and Pipefitters

## STATEMENT OF MARVIN L. WILLIAMS, PRESIDENT
## WASHINGTON STATE LABOR COUNCIL, AFL-CIO
## BEFORE THE SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES
## ON S. 1701, BONNEVILLE POWER ADMINISTRATION

The Washington State Labor Council, AFL-CIO, applauds the efforts of the Senate Committee on Energy and Natural Resources and the Senators sponsoring S. 1701 to assist the Pacific Northwest in resolving the problems of the Washington Public Power Supply System. The Washington State Labor Council is comprised of the AFL-CIO affiliated unions in Washington state and is the state's largest labor organization.

On July 22, 1983, the Executive Board of the Washington State Labor Council voted unanimously to support the amendment contained in Section 317 of H.R. 3363, the Department of Interior and Related Agencies Appropriation Bill for 1984. The Executive Board felt that completion of WPPSS #3 as soon as reasonably possible is important for the jobs it will preserve and the energy it will produce.

The WPPSS situation has inflicted huge job losses on Washington state, compounding the job losses in aerospace, forest products and residential construction. According to WPPSS, over 8,500 construction jobs have been lost since the WPPSS projects began to unravel. Despite some signs of recovery in the forest products sector, May 1983 unemployment in the Tri-Cities area, site of WPPSS #1, #2 and #4, was 13.5 percent. In Grays Harbor County, site of WPPSS #3 and #5, the unemployment rate in May was 13.4 percent. The overall unemployment rate in May, 1983 for the state was 11.2 percent.

We are asking for help in the form of clarification and extension of Bonneville Power Administration's authority to use its revenue to back up the financing necessary to complete the net-billed projects. We are not asking for an appropriation or bailout. We seek the necessary federal enabling legislation that will permit the Northwest to solve its own difficulties. The costs incurred to complete the net-billed projects will be paid by the electric power consumers of the Northwest energy system.

The Washington State Labor Council always has been a strong supporter of public power. Our support continues. We believe that resolution of the WPPSS problems will be impossible without full consultation among all of the affected groups, including representatives of public power.

I want to thank the Committee for this opportunity to state for the record the support of the Washington State Labor Council for S. 1701.

The CHAIRMAN. Mr. Mundy.

Mr. MUNDY. Mr. Chairman, thank you very much for inviting me to testify.

Let me, first, clarify the record. It appears that I am scheduled here as the director of legislation for the AFL–CIO; and, in fact, I am the director of legislation for the building trades department of the AFL–CIO. I wouldn't want to offend Mr. Ray Dennis; nor would I want to, by some act of the U.S. Senate, assume his position.

The CHAIRMAN. Is that properly identified on the witness list? We did not make that accurate.

Thank you.

## STATEMENT OF DANIEL MUNDY, DIRECTOR OF LEGISLATION, BUILDING TRADES DEPARTMENT, AFL-CIO

Mr. MUNDY. Mr. Chairman, I have a very brief statement that I will submit for the record. I thought I might read it, but I find it really doesn't say anything but confirm our position that in regards to what a lot of other people have said.

So, let me just very briefly say that we are totally in support of the position taken by the Washington State AFL–CIO, and certainly by the Washington State building trades.

Let me further say that as you and a lot of other people in this—know it, it is not unusual for us to support the construction of power projects. We might describe that as self-serving and certainly it is because we hope to—we represent people who construct these projects.

We think the record will show that over a period of time that that position has certainly served this Nation as well as it has served the people that we represented.

We know and we can confirm that the access to energy in the U.S. has been one of the linchpins of prosperity in this country. There is a direct relationship between energy at a modest cost.

We used to say expensive electricity, but power at a modest cost reflects itself in prosperity to that entire community. It generates many, many things besides the direct onsight jobs.

We're very appreciative that the U.S. Senate, and particularly this committee under your chairmanship, Senator McClure, saw fit to move in this area as rapidly as you did.

Let me say further that the building trades department of the AFL-CIO, and for that matter, the national AFL-CIO is prepared to assist you and the other exponents of this legislation toward a successful conclusion, in the U.S. Senate, as well as the House of Representatives. And I'm prepared to answer any questions that I might be deemed the expert in, and I'll defer those in which I'm not.

[The prepared statement of Mr. Mundy follows:]

# Statement of Daniel Mundy
Director of Legislation
Building and Construction Trades Department, AFL-CIO
Before the Senate Subcommittee on
Energy and Natural Resources
On S. 1701, Directives on the Bonneville Power Administration

I would like to thank the Committee for allowing the Building and Construction Trades Department, AFL-CIO, to testify in support of S. 1701.

This bill, along with Section 317 of H.R. 3363, the Department of Interior and Related Agencies Appropriation for 1984, provides the specific directives to the Bonneville Power Administration which we feel will ensure the completion of Washington Public Power Supply System Units 2 and 3.

The need for this legislation is obvious in several respects, the most important to us being the loss of jobs in the state of Washington. WPPSS has estimated that over eight and one-half thousand construction jobs have been lost since the financial difficulties of WPPSS came to a head. WPPSS Unit #2, which is 98 percent complete, had over 4,500 people in all occupations working there alone.

If these plants are abandoned, the loss of revenue to the Pacific Northwest will soon trickle down into the aerospace, forest products and residential construction; hindering even further attempts to relieve the area from record unemployment.

The need for the production of energy in the area has been documented by the Northwest Planning Council and will benefit future generations. Bonneville Power, through existing net-billing arrangements, will finance the completion of Units 2 and 3, and through the language in this bill, shall take into consideration the effects any financial arrangements shall have on the taxpayers in the region. Furthermore, Bonneville Power will not have the authority to incur liability on WPPSS numbers 4 and 5, and the investor-owned shares of #3.

WPPSS #2 is presently 98 percent completed, and is scheduled to be operational in early 1984. WPPSS #3 is 78 percent completed, and is scheduled to be completed in early 1986. The Building and Construction Trades Department feels that we cannot afford to abandon the future energy needs of the people of the Northwest by letting WPPSS die.

I would like to congratulate the Committee on Energy and Natural Resources for the speed in which they are trying to resolve this problem, and thank you for the opportunity to present our support for S. 1701.

The CHAIRMAN. Thank you very much. Your statement will be placed in the record in full, and I can't tell you gentlemen how much I appreciate your willingness to come clear across the country in two instances, and come here this afternoon at this hour and to sit until this hour to have the opportunity to testify.

I want to highlight one thing, because you didn't take the time to go through your statement. And I know the TV cameras are off, and the press table is almost empty, but I do hope there will be some who will take the time to read your statement.

Mr. MUNDY. We hope so too.

The CHAIRMAN. I'll not take the time to do that now. I may well do it at a later date when perhaps it'll be into the right ears, but I want to stress the impact upon the communities at which you are located, in which the powerplants are located, the impact upon the human lives that are involved of the workers and the communities, and on you, Mr. Bever, with respect to what happens to the community in which you live, and in which you have a responsibility as a leader. These are impacted very directly. And you, Mr. Mundy, in regard to the statement that you have made about the benefits of power to people, the availability of energy at modest costs. Not as little as we'd like, but we're seldom ever satisfied. But the availability of energy is a multiplier in the quality of life of people.

Of one of the things that I think has to be underscored is we're undergoing a great national evolution with respect to the place of women in our society. Women in the household have been emancipated almost entirely as a result of labor saving devices, almost everyone of which utilizes energy.

We wouldn't be talking about the role of women in society if they still had to wash diapers by hand, et cetera, et cetera. And I don't mean to get on the soap box too much, but I think the availability of energy is absolutely essential.

Mr. Mundy.

Mr. MUNDY. I might add that, Chairman McClure, that the availability of energy is also permitted the adversaries of energy, to use their electric typewriters, and their Xerox machines to turn out tons of materials which oppose it.

The CHAIRMAN. And they probably shaved with an electric razor to come here.

Mr. MUNDY. And a toothbrush, sir.

The CHAIRMAN. Senator Gorton?

Senator GORTON. Mr. Chairman, I'd like to join you in thanking Mr. Mundy for his testimony here, but most particularly not only my own constituents from the State of Washington, but my two neighbors in the Olympia area for their willingness to come this great distance to present us with a message which I hope is well received, and it's certainly well received by the two Senators who are here now.

The CHAIRMAN. Senator Metzenbaum, do you have any questions?

Senator METZENBAUM. Good afternoon, gentlemen. I'd like to welcome you here. Thanks for coming.

The CHAIRMAN. I thought he was going to give you a promise he'd read your statements. We'll persuade him to do that.

Thank you again very much for your willingness to come. I think that underscores, particularly for those of you who have come across the country to testify to the importance of this issue.

The next witness, Mr. Charles Collins, council member of the Northwest Power Planning Council, from Portland, Oreg.

Mr. Collins? Thank you for taking this time, and making this effort to come here

## STATEMENT OF CHARLES COLLINS, COUNCIL MEMBER, STATE OF WASHINGTON, NORTHWEST POWER PLANNING COUNCIL

Mr. Collins. Our written comments were brief. We're here today in representing the Northwest Power Council to support your efforts to reestablish a condition that would allow a return to construction at WPPSS 3.

That support flows from two considerations, and I'd like to mention those briefly.

The first is we feel that power is needed, and by that, what we mean is that under a rate of growth of 1½ percent a year, which is what we call the medium or low rate of growth, that power will be needed, unless it is replaced by power that is more expensive. Power that WPPSS can provide will be available now at about 3 cents a kilowatt hour. If we grow at 1½ percent a year in our electrical load usage, we'll require that power from WPPSS 3, or replacement power. If for some reason we don't build WPPSS 3, we'll build an alternative source, and the cheapest alternative source is not the 3 cents that it would cost to build WPPSS 3, it is 4½ cents. So we'll face an incremental cost from the resource substitution, if you will, of a cost increase of about 50 percent.

The question then becomes what are the probabilities that the loads will grow at a rate of at least 1½ percent a year? Our plan says that those probabilities are high; that they're least in the range of 2 to 1. So the risk calculation here with respect to the economics, is fairly simple. We have a high probability that power will be needed. For some reason this power is not available; we'll use a substitute source of power that we believe will cost at least 50 percent more per kilowatt hour.

The second consideration is the question just of the risk of a shutdown in construction. We may already be concurring a major portion of that risk at the WPPSS 3 plant.

The council did not include WPPSS 4 and 5, or the Skaget Hanford nuclear plants in its plan. The considerations the council made, one of the major risks that it was looked at, was the whole proposition of restarting plants after they had come into some state of mothballing, or some state of termination.

We recognized the high level of risk, both from construction cost overruns, from regulatory changes, from just the financing difficulties that sponsors could face, and in part, because of the risk that those plants faced, we did not put Skaget Hanford, or 4 and 5, into the plan.

Now, the same issue applies here. If WPPSS 3 faces a lengthy shutdown, there is no reason to believe that the risks that were present in 4 and 5, and in Skaget Hanford, would somehow miraculously not be present at WPPSS 3.

We think that as shutdown occurs, and particularly as the critical engineering staff is dispersed, which I understand has not yet occurred, that those risks will be large.

In the case of 4 and 5, we thought they were massive; 4 and 5 had an advantage that WPPSS 3 will not have. One of the answers to overcoming the technical problems on restarting, for example, WPPSS 5, was there was a fully licensed operating twin next door. You open the door and walk into WPPSS 3 and you would see new staff exactly how I should build WPPSS 5, as not an advantage that WPPSS 3 will enjoy.

So to sum then, the probability of need his high, the alternative power will be at least 50 percent more expensive. We think there are significant risks involved in a lengthy shutdown that really hasn't been addressed in just some straight analyzation of what the rate impact will be.

We have one criticism that we would want to mention at this point, and that refers to a section in the committee report. We've raised this in the correspondence. We may have misunderstood the language in the report, but there was language in the report describing the conditions that must exist prior to the Bonneville Power Administrator authorizing a restart. And they included an analysis of the alternative forms of power that might be available, cost effectiveness tests, but the langauge appeared to limit it only to generating resources.

I know of no economic reason to make that exclusion, if indeed, we are looking at alternatives, we should look at all alternatives, including those of renewables and conservation.

That really concludes my remarks. Thank you for the opportunity to be here this afternoon.

[The prepared statement of Mr. Collins follows:]

## STATEMENT

## NORTHWEST POWER PLANNING COUNCIL

## CHARLES COLLINS

## COUNCIL MEMBER, STATE OF WASHINGTON

I am pleased to present the comments of the Northwest Power Planning Council regarding Senate Bill 1701.

In a letter to Chairman McClure dated July 20, 1983 the Council expressed its position on language which we understand is identical to this bill. As our letter points out, WPPSS 1, 2, and 3 were acquired by the Bonneville Power Administration before the passage of the Northwest Power Act and the creation of the Council. The Northwest Conservation and Electric Power Plan adopted by the Council in April of this year assumes that those plants will be completed and in service on schedule. Our analysis shows that if the region's demand for electricity grows at a rate above our medium-low growth forecast, and if those plants are not completed, the region would need to build additional power plants beyond those included in the Council's plan. The Council has estimated that the cost of building new power plants would be higher than the cost of completing WPPSS 2 and 3.

The Council recognizes that substantial risks are associated with mothballing WPPSS 3. Mothballing the plant could increase the cost to complete the plant to the point where the plant is no longer cost-effective. This risk increases the longer the plant is delayed. Mothballing increases the possibility that technical or regulatory changes would make it harder to license the plant. And, mothballing increases the financial risk borne by the sponsors of the plant. For these reasons, the Council supports efforts to find a way to continue the construction of WPPSS 3 and ensure the completion of WPPSS 2.

The Council's support for continuing the construction of WPPSS 3 is based upon our understanding of the need for that plant and the risks of delay. Our opinions have been formed on the basis of information acquired during the development of the regional power plan, particularly the forecast, the resource assessment, and the evaluation of WPPSS 4 and 5. The Council is the first to recognize that the questions of need for power and risk of delay have never been examined in public in connection with WPPSS 3. The Council believes a public examination of these issues, as they relate specifically to the scheduling of WPPSS 3, is important -- particurlarly if WPPSS 3 is mothballed for any length of time. An extended mothballing of that plant could lead to the loss of managerial and engineering talent at WPPSS, which could significantly increase the cost of completing construction later and, perhaps more importantly, could increase the likelihood that plant 3 would never be completed.

We also have a comment on the report which accompanies the bill. One portion of the report states that before making any contractual arrangements under the bill Bonneville should take into consideration "the Committee's concern over the effect of the arrangement on the ratepayers of the region as compared to other viable alternatives for the acquisition of power from generating resources." This statement has been interpreted to mean that BPA may limit its consideration of alternatives to completing WPPSS 3 to generating resources only, to the exclusion of conservation and renewable resources. That, of course, would not be consistent with the Council's plan or the Northwest Power Act. We have been told that this sentence actually is intended to express concern that the ratepayer effects of the proposed financing arrangements should be comparable to the ratepayer effects of viable financing alternatives for similar resources (that is, generating resources). If that is the intent, the language should be clarified. At any rate, the Council believes that any cost-effectiveness comparisons involving WPPSS 3 must include conservation and renewable resources as well as generating resources.

Thank you for this opportunity to testify.

The Chairman. Thank you. Go ahead, Senator Gorton.

Senator Gorton. This last question which Mr. Collins has raised was raised with me a week or so ago by Governor Evans, and some staff communication has gone on in the subject.

I'd simply like Mr. Collins to know that, and the chairman to know while he's here, that I would propose to have a colloquy with the chairman, Mr. McClure, at some time or another on the floor which does clarify this question.

The Chairman. I thank Mr. Collins for raising that issue, and you, Senator Gorton, for making the contribution you have. I think it should be stated, it's my understanding, and we will engage in that colloquy to clarify it.

My understanding is that report language only looks at the cost of financing, and the direct costs as an alternative. It is not intended to go any further than that, and I hope that that satisfies whatever——

Mr. Collins. I think your staff mentioned that to our staff. Any clarification you could make in that regard would be helpful.

The Chairman. I have just one question.

Mr. Metzenbaum. Could I interrupt? It's a quarter to 6, and I notice you have a long list of witnesses, and the GAO witness, I think, is particularly important. I'm wondering what the—and I don't mean in that way to demean the testimony of any of the other witnesses, I didn't mean it that way. I'm wondering whether the chairman would not think it appropriate to ask these witnesses to return after recess. I gather we're going out tomorrow. I know tomorrow morning you have a markup on. I doubt that many Senators are going to be around here tomorrow afternoon, because my guess is they're going to go out. And I don't want to interfere with your normal procedure, but at a quarter to 6 it's—I must leave shortly, and I really did want to hear the GAO witness.

The Chairman. Well, certainly the GAO is in town, and I expect they'll still be in town over the next 60 days. We would, of course, entertain whatever is necessary to satisfy the requirements of members of the committee.

Other witnesses, however, are from out of town. I think it would be a substantial disservice to them to ask them to——

Mr. Metzenbaum. I'm certainly not trying to——

The Chairman [continuing]. Come here and then not have the opportunity to testify.

Mr. Metzenbaum. I just want to say to the chairman that by my leaving I don't want it interpreted as an insult to the witnesses, or any lack of interest. I think this will be it for awhile.

The Chairman. I'll only occasionally refer to that. Morning, noon, and night.

I understand the fact that members have conflicts. That's always a problem here. I regret that we had conflicts this afternoon that made it impossible for us to hear the witnesses more expeditiously.

Mr. Collins, first of all, your prepared statement will be placed in the record in full. I've only one question that occurs to me at the moment.

You indicated that the alternative power source would be at a cost roughly 50 percent higher than the incremental cost to completion.

Mr. COLLINS. That's correct.

The CHAIRMAN. Did you include in that cost comparison the cost of that service on the bonds already issued on No. 3?

Mr. COLLINS. No, it's an incremental cost to finish, including financing, and the cost of operating. Basically it takes a dime at this point. It was close to seven-tenths of a cent 90 days ago. It's approximately a dime now to finish the plan, and to finance that construction. It'll take another approximately 22 cents to operate the plant.

The CHAIRMAN. But even if it is not finished, there still remain $1.6 billion worth of bonds directly attached——

Mr. COLLINS. That's correct.

The CHAIRMAN [continuing]. To No. 3, to which dead service would attach?

Mr. COLLINS. That's correct. And those are not of any consideration—that is not included in my calculation.

The CHAIRMAN. So whatever that cost would be for debt service on the $1.6 billion, would have to be added to the alternative costs as the total costs for the energy which might be supplied by this plant—might otherwise have to be supplied by some other plant?

Mr. COLLINS. I would not agree with that, Senator. If the costs that are sunk are sunk, and whatever plant we build at this point, starting a new coal plant, or finishing WPPSS 3, basic will rise on their own costs, their own incremental cost from here on out——

The CHAIRMAN. The comparison is just between the additional cost, as compared to the alternative.

Mr. COLLINS. That's correct.

The CHAIRMAN. It would be a different ratio if we were to take the subcosts and add them to the incremental costs.

Mr. COLLINS. It would be different, yes.

The CHAIRMAN. But they have to be paid under either event?

Mr. COLLINS. The money can't be spent until we—it's a question the Supreme Court hasn't looked at that yet.

The CHAIRMAN. So you should be sitting on the court.

Mr. COLLINS. Just to make those kinds of statements with some assuredness.

The CHAIRMAN. Thank you very much, Mr. Collins. You've been sitting very patiently, and during that period of time I think you've heard me make several references to the letter I received from the Council. I think your contribution has been very helpful. Thank you very much.

Members of the committee may wish to submit questions in writing to the witnesses, and we would expect to be able to submit those questions in writing to the witnesses for their response in writing. The record will remain open for a reasonable length of time to accommodate that requirement, so that members of the committee may have that opportunity, and the witnesses may have that opportunity to respond.

We'll next hear from Mr. Donald Mazur, managing director to Washington Public Power Supply System. Those who accompany him—I'm not sure how many are accompanying him. Mr. Doupe and Mr. Perko.

## STATEMENT OF DONALD W. MAZUR, MANAGING DIRECTOR, WASHINGTON PUBLIC POWER SUPPLY SYSTEM, RICHLAND, WASH., ACCOMPANIED BY CRAIG DOUPE, CHIEF LEGAL COUNSEL; AND JAMES PERKO, CHIEF FINANCIAL OFFICER

Mr. MAZUR. I have with me Jim Perko sitting on my right. He is the chief financial officer for the Washington Public Power Supply System; and on my left is Craig Doupe, who is the chief legal counsel.

I have submitted written testimony for the record. I don't intend to read it verbatim.

The CHAIRMAN. That statement will be placed in the record in full and you're invited to proceed as you like.

Mr. MAZUR. I would like then to just highlight some points out of that testimony, and others, and then open it for questions available with my colleagues as well.

First, Mr. Chairman, and Senators, I really welcome the opportunity to speak before you, and testify on this legislation. I'm extremely encouraged by your response to this problem.

Point one I'd like to make is the support, I support, we support, the enactment of this Senate bill 1701. I recognize it as a very strong project. It clearly in the near term is the most efficient and cost-effective option available to complete No. 3.

I do recognize that there is a lack of consensus in the region on specific language. I do also believe that there is a consensus on the need for Federal legislation. I believe the form that you have provided, as well as the panel enacted by Governor Spellman, are excellent vehicles for that consensus to be reached. But not at the expense of the near term legislation.

The other point I'd like to make is that the absence of this legislation, or any similar language, I believe, places at a very high risk the Federal net-billed assets, plants 1, 2, and 3. And I'll speak a little bit more on what I mean by that.

The other point I'd like to make is on the project themselves. I have listened to a lot of dialog with regard to the percent complete, and the actions of the project, and if I can I'd like to just start slowly and go through them on what are projects, and where they're at.

The furthest along is WNP 2, Washington New Project No. 2. It is 98 plus percent complete constructionwise. It will be loading fuel in the fall of this year, and be in commercial operation in the spring of next year. I would emphasize that on the first day that I pull the control rods on that plant, it won't be a 100-percent operating plant. It will have a shakedown period, and though it's an 1,100 megawatt plant, it will take some time for us to debug the plant, and bring into a state of availability that when the plant is needed, it will be there.

So it's not a matter of today it's construction, and tomorrow it's operation. That is not unique to the supply that's nuclear industry, $150 million that has been spoke of to finish construction. By the end of this month my checking account is empty. And without the presence of Bonneville in the form of that $150 million to finish construction, I would have had no choice but to drop the wrench and walk away from that plant. I wouldn't even have sufficient funds to pay the commitments that are in the pipeline, based upon the commitment made months ago to go to a cash only basis.

So it was, and is, a serious problem. The recent GAO reaffirmation of that authority has certainly let me sleep a little better at night, I can assure you of that.

The $150 million we're talking about to finish construction is money that was planned for 2½ to 3 years ago in our budget. It represents the same budget, no change, and the same schedule. So that project has maintained its budget, and has maintained its schedule over the last 2½ years.

Plant No. 3 is 75 plus percent complete when it was shut down on June 1 roughly of this year. I currently have no construction going on, and I'm in a ramp-down mode, heading for a minimum manpower sealing for preservation. That preservation, and that minimum, assuming no further finance, just what has been put in motion in the ramp-down, would be achieved by about late spring and summer of next year, and then would be sustained on a preserve-the-asset mode until the signal comes to go back on line.

I might add that the funds I have left in my checking account is roughly $60 million. Those funds on the printed ramp-down schedule would be exhausted by roughly the first of the year. And if I do not even construct, but continue into a preservation mode, the funds necessary to do that will have to come from the Bonneville Power Administration at some rate per month.

So even in the prospects of not continuing, there is that problem. In the near term we are continuing to lose personnel. The mission has changed significantly, and the key managers, and engineers, as well as the key craftsmen, are all leaving the project based upon the mission change, and so forth.

On WMP 1, it was put in mothball in April 1982. It was 63 percent done. It was also ahead of schedule, and well within budget. It has now been down for a little bit over a year, and we are approaching a stable form of preserving the assets, and the funds I have sufficient for that project, a little over $150 million, will be able to pay for the preservation mode well into 1985, and early 1986, at which time it's now contemplated, based upon the load forecast need, and the need of that plant, to start back on line since that it's available in 1991.

In somewhat of a summary sense on those net-bill projects, in the last 2½ to 3 years since I've been part of the team that Ferguson has brought together, there has been one intense management effort to bring the supply system, and its project performance, in line with good management. We have done that. We have maintained projects. Our budgets have been solid for the last 2½ years, and as noted earlier, project No. 3 was allowed to go forward, I could have returned a little bit, and reduced the cost.

In all cases, the supply system and its project performance, technical and otherwise, is second to none in what we've been able to do. I've done this while we've been shrinking the mission from five projects to one, and trying to keep people together, and get that kind of performance. That is severely threatened right now.

I am losing, as I've indicated, key personnel. I'm losing them at levels now that are beginning to hurt. And my ability to retain the staff to maintain that kind of performance for the future is severely being threatened, and brings to bear the risk, the increased risk, of those net-billed projects I refer to.

The bottom line of most of that reads that there will never be a better time to get the kind of performance to keep the risk to the ratepayer down than what we have right now. And as the erosion of those people continues, that risk goes up.

Second, the risk to the region by not continuing, and having the resource when we need it, checked out and available to go, will increase.

And the last one is that any kind of a slowdown will add cost to the bottom line of the project. And those are going to impact the region in terms of when the project comes it'll have to be paid for.

One other point. There is an oustanding debt of $6.1 billion in the net-bill project. Every year for the next 25 years we'll have to pay $618 million just on debt service, whether I finish the plants or not on the existing debt. If I do nothing more on any of them, it's $618 million a year for nothing. And that's going to be with us for 25 years.

I won't go into great detail on my efforts to try and find funding. The first one that was referred to is in the conventional way, and that's the municiple bond market. It is closed to us. Our credit worthiness is not sufficient for the investment bankers to go out and market our bonds. There are sufficient legal threats, legal challenges, and other aspects that prevent us from doing that.

We tried the alternative finance, going to banks to find out if we could get a bank line of credit. The bottom line is the same. Our credit worthiness is just not there. This legislation that provides for a degree of certainty on repayment of the loan is the only thing that's available to us right now.

So in a final analysis, clearly we need some help. And that help in the form of your legislation, S. 1701, is clearly a financial option that can truly minimize the impact to the region and the ratepayer, if allowed to get on with the job.

That concludes my remarks. I would offer to you that I and my staff stand ready to assist you and anyone else in your efforts to achieve this objective.

[The prepared statement of Mr. Mazur follows:]

# TESTIMONY OF DONALD W. MAZUR ON S. 1701 BEFORE THE SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES

August 3, 1983

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I am Donald W. Mazur, Managing Director of the Washington Public Power Supply System. I will summarize the Supply System's position with respect to S. 1701 and go on to provide the background of the present situation which prompts the need for legislative action.

## Summary of Supply System Testimony

The Supply System supports enactment of S. 1701. While we believe the proposed legislation could be amended to improve chances of accomplishing its intended goal -- financing completion of WNP-3 in the most efficient, lowest cost manner -- S. 1701 appears to be a strong, positive step in that direction.

The Bonneville Power Administration is (and, ultimately, the ratepayers of Bonneville's customers in the Northwest are) obligated to pay the costs of Supply System Plants 1 and 2 and the 70% Supply System ownership share of Plant 3, under three net billing agreements to which Bonneville, the Supply System and some 100 participants are parties. Bonneville is now paying the $618 million annual debt service costs of these projects, as the table on page 5 indicates.

Failing to continue construction of Plant 3 on its current schedule will significantly increase its cost and could jeopardize its very completion. The additional cost to this project, if it were terminated or even significantly delayed, would impose a substantial burden on Bonneville and its customers.

In addition, I feel strongly that should WNP-3 be put in jeopardy of completion, most certainly WNP-1 (now 63 percent complete) would be at a higher risk of not being completed as well, raising the very real possibility of another financial "dry hole."

Further, should events occur which interrupt the expected revenue stream necessary to complete WNP-2 construction, the Supply System's only choice left would be to "drop the wrench" and walk away from the plant, causing irreparable harm to the project and the Supply System.

A shutdown of WNP-2 would:

- make it unlikely that the Supply System can retain the engineering and management talent so important to completing the project, obtaining the necessary NRC operating license, and commencing operation;
- deprive the Northwest and adjacent regions of energy from the project, which the Regional Power Council and Bonneville have identified as needed to meet firm loads or displace higher costs or scarce fuels;
- deal a final blow to the remaining skilled construction laborers which have been working on the projects; and
- increase costs and financial burden to the region, if the plant is to be remobilized.

The Supply System stands ready to assist the Committee in any way it can with respect to S. 1701, its possible amendment, and its implementation, so that project construction can continue on WNP-3. As one example, we suggest that the provisions of the

Committee report which are applicable to WNP-2 and WNP-3 be made applicable also to WNP-1, though its needs are a few years distant.

Background of Net Billed Projects' Status

The Washington Public Power Supply System is a municipal corporation of the State of Washington, incorporated under the state's joint operating agency law in 1957 for the purpose of providing the state's municipal utilities, public utility districts and others a means of assuring themselves a bulk power supply on a nonprofit basis, through an organization many of them controlled.

The Supply System owns and operates the Packwood hydroelectric project and operates the 860 megawatt Hanford generating project, which uses waste steam from the U.S. Department of Energy N-reactor.

In the early 1970's, the Supply System also undertook construction of three nuclear power projects -- WNP-1 and WNP-2 on the federal Hanford reservation in eastern Washington, and WNP-3 at Satsop in western Washington -- as a result of plans undertaken by the region's public and private utilities and the Bonneville Power Administration as part of phase 1 of a regional hydro-thermal power program. The power producing capability of these projects was sold by the Supply System to various consumer-owned utility participants and assigned by these participants in turn to Bonneville, all under three-party "net-billing" agreements, executed by each participating utility, the Supply System, and Bonneville. The net-billed projects were commenced in 1971 (WNP-2), and 1973 (WNP-1 and WNP-3).

Later, when further studies indicated the need for more resources to meet regional needs, the Public Power Council, on behalf of the region's public and cooperative utilities, requested the Supply System to undertake construction of two additional projects to be planned as "twin" units of WNP-1 and WNP-3. These projects were WNP-4 and WNP-5, respectively, begun under agreements subscribed to by 88 participants in 1976.

As members of the Committee may know, the Supply System construction program is now in critical condition; WNP-4 and WNP-5 had to be terminated in January, 1982, when the Supply System was unable to finance further construction on them. This occurred partly as a result of questions as to need for power from these projects and the enormous amount of financing required to complete them. Termination of Plants 4 and 5, which were then approximately 23% and 16% complete, respectively, and for which $2.25 billion debt had already been incurred, meant that the projects constituted an enormous "dry hole" -- one with respect to which the Supply System was obligated to seek the 88 participants' payments, under the participants' agreements.

Ratepayer pressure with respect to these dry holes led participant utilities to challenge the validity of their obligations to pay project costs. To date, after approximately one year of litigation, some 80% of Project 4/5 participants' shares have been excused from performing their obligations, by decisions of an Oregon trial court and the Washington Supreme Court. The absence of any payments to the Supply System from participants has led directly to default on Projects 4 and 5 -- a situation which now imperils the net-billed projects and the Supply System's ability to finance and complete construction on them.

Status of the Net Billed Projects

Reduced forecasts of Northwest power demand contributed to Bonneville's decision in April, 1982 that the Supply System suspend construction on WNP-1 for about five years. WNP-1 was 63% complete when construction on it was halted.

The following table indicates for each net billed plant the percent completion; scheduled on-line date; completion financing required; bonds issued to date; and annual cost of existing debt.

COST, SCHEDULE AND FINANCING DATA FOR NET BILLED PROJECTS

| | % Complete | Scheduled On-Line Date | Financing Needed To Complete Construction ($millions) | Bonds Issued To Date ($ millions) | Annual Debt Service Payments on Existing Bonds ($millions) |
|---|---|---|---|---|---|
| WNP-1 | 63 | undetermined | undetermined | $2,155 | $218 |
| WNP-2 | 98 | Feb. 1984 | $150 | $2,370 | $233 |
| WNP-3 | 75 | Dec. 1986* | $960 | $1,600 | $167 |
| Total | -- | ---- | $1,110 | $6,125 | $618 |

* Date prior to July, 1983 construction delay.

The "bottom line" portrayed in the above table is that some $6 billion in debt has already been issued on the plants, for which the region, through Bonneville, pays $618 million each year. Without additional financing to continue construction, the region will have a $618 million annual "dry hole" cost for the next three decades; however, if the $1.11 billion required to complete Plants 2 and 3 is available (at an added annual debt service cost of about $130 million), the region would have two completed, revenue producing projects to show for its investments.

The Supply System has made diligent efforts to seek additional financing that is required to continue construction of WNP-2 and WNP-3. In 1983, bond underwriters for the net billed projects had identified a number of impediments that had to be removed before they would attempt further financing for the plants. A number of actions were instituted by the Supply System to try to dissolve these impediments, including efforts to pass state legislation limiting the basis on which the Supply System could file a petition under Chapter 9 of the Federal Bankruptcy Code.

However, in May 1983, it became apparent that the impediments identified could not be cleared up before cash coverage requirements became critical. This led to a concentrated Supply System effort to find a funding source other than the municipal bond market. The heaviest effort was placed in the area of securing a commercial bank loan, though other alternatives were also investigated. The fundamental difficulties underlying all of these alternatives -- including conventional municipal bond financing -- were, however, the same as those initially identified by the underwriters:

(1) uncertain consequences to the net-billed plants of a Supply System bankruptcy, which could be brought about by a default with respect to Plants 4 and 5; and

(2) uncertainties brought about by possible appeal of the U.S. District Court's ruling in City of Springfield v. Washington Public Power Supply System, upholding the validity of the net billing agreements.

Finally, after the Washington State Legislature refused to enact legislation sponsored by the Supply System, which would have limited the Supply System's ability to file a petition in bankruptcy, Standard & Poor's suspended ratings on the net-billed bonds. Standard & Poor's public statement on the suspension noted the Washington legislature's sentiment "that the Supply System bankruptcy be preserved as an option," and said that bankruptcy posed unacceptable risks to net-billed project bondholders.

Thus, in spite of the Supply System's efforts, the completion status of WNP-3 is uncertain at this time, because the Supply System has been unable to obtain financing to fund further construction for its 70 percent ownership share of the project.

Effects of S. 1701

S. 1701 would affirm Bonneville's authority to make payments from current revenues for the costs of construction. With respect to the $150 million yet to be financed on WNP-2, Bonneville intends to fund these costs out of current Bonneville revenues, which are forecast to be $2.8 billion for Fiscal Year 1984 Bonneville has told the Supply System that it has set aside funds to fund completion of WNP-2 from current revenues, and that it would do so should this prove necessary. The Supply System has relied on this commitment with respect to WNP-2. Bonneville funding is the only readily available means of financing completion of construction on WNP-2, and is a financially prudent investment for Bonneville, comparing (1) its present obligation to pay the costs of the 98 percent completed plant in any event and the absence of revenues if the plant is left uncompleted to (2) the relatively small incremental investment now to be made in the project and the revenues it would produce when completed and operating in early 1984.

Bonneville's legal ability to carry out the same course of action for financing completion of the Supply System's 70 percent ownership share of WNP-3 is not different from the WNP-2 situation, but the amount remaining to be financed -- some $960 million -- is in Bonneville'ls judgment too great to finance from current revenues, so an outside financing of some sort will be required.

We understand that certain commercial banks may be willing to lend money for completion of WNP-3 if Bonneville is authorized to make the payments in the manner provided for in S. 1701. The loans would, as we understand it, be to a new legal entity, to attempt to avoid problems posed by the Supply System's insolvency with respect to Plants 4 and 5.

Conclusion

While we have some questions as to how S. 1701 may be implemented so that it can fully accomplish its intended purpose, we strongly support this concept as the most promising means yet proposed for financing continued construction.

We welcome the concern members of Congress have shown for resolution of this problem, which has such important consequences for Bonneville and, indeed, the entire Northwest region. We intend to work with the Committee to whatever extent may be appropriate to advance S. 1701, or to pursue any reasonable alternative to it which may be identified, so that (1) construction can continue on Plant 3; (2) a means for financing the completion work to be done on Plant 1 is available when it should have to be restarted; and (3) Bonneville's authority to fund completion of WNP-2 is confirmed, so that costly, potentially immobilizing litigation on this point can be avoided.

The CHAIRMAN. Thank you, Mr. Mazur. I appreciate both the difficulty under which you've been working, and the accomplishments that you've been able to bring to the management of this construction schedule.

If I understand your statement, the $618 million per year is total debt service for the outstanding bonds with respect to 1, 2, and 3?

Mr. MAZUR. Yes, sir, that's 100 percent of 1; 100 percent of 2; and 70 percent of 3.

The CHAIRMAN. And the debt service, if a means is found to finance the completion of 2 and 3 out of borrowed capital, that would increase the annual debt service by $130 million?

Mr. MAZUR. That's our projection.

The CHAIRMAN. So make it a total of $748 million per year for the next 25 years?

Mr. MAZUR. That is our projection.

The CHAIRMAN. I think you indicated that while your table shows the WPPSS 1 on line data as undetermined, that you said in your remarks that it might be, and you would expect that it might be likely that it would aim toward restart and completion in time to be on line in 1991?

Mr. MAZUR. That is correct. The only reasoning for putting undetermined down there is the certainty by which I can get back into the business like late 1985 and 1986. If that holds, then 1991 is the time. And that coincides with the Regional Planning Council's need for that power.

The CHAIRMAN. If project No. 2 and 3 are not completed what is the revenue from which you'll pay any debt service?

Mr. PERKO. The revenue would be from the obligations under the net-billing agreements for those projects, and backed up by the Bonneville.

The CHAIRMAN. And you do have a couple of power producers, or three producers, is that correct?

Mr. PERKO. We do have the Packwood, and the Hanford Generating Project, but they're separate from the net-bill projects 1, 2, and 3.

The CHAIRMAN. They are separate, but they are a stream of revenue available to supply system?

Mr. PERKO. To retire those commitments undertaken for those specific projects, and it's a very small stream compared to these.

The CHAIRMAN. Thank you very much. Senator Gorton?

Senator GORTON. A couple of questions, and simply because it's so important, I'm going to ask in only a slightly different way, a question which my friend Senator McClure has already asked.

The ratepayers of the Pacific Northwest at the present time have an obligation of $618 million per year for approximately 25 years for the debt service No. 1 and No. 2 and the public 70 percent of No. 3?

Mr. MAZUR. That's correct.

Senator GORTON. And that will be paid whether or not any of those three ever produce any power?

Mr. MAZUR. Whether we continue any further construction or not, that is correct.

Senator GORTON. And the figure of $130 million per year in addition, is based on a projection over the same 25-year period?

Mr. MAZUR. Not quite. Let me—because of the financing scheme, other than long-term notes on a short-term basis, we can talk to that a little better in my financial kick here. That can answer it.

Mr. PERKO. The additional 1 billion 1 that would be required to complete the financing of units 2, and 3, was just projected at a 12-percent rate, would mean an annual debt service of $130 million. The term of that would depend upon what the final negotiations might be, and it's undetermined as to the length right now.

Senator GORTON. So that extra $130 million might well only have to be paid for a shorter period of time than 25 years?

Mr. PERKO. Yes, sir.

Senator GORTON. And in return for that additional payment, would presumably get two operating and producing nuclear plants, the power from which will be used, both used and sold, and will be income producing, is that not correct?

Mr. PERKO. That's correct, sir.

Senator GORTON. So the real problem, or the real question facing us here, and the people of the Pacific Northwest, is whether or not to pay $618 million a year for 25 years for nothing, or $748 million per year, perhaps not for the entire 25 years, for two operating nuclear plants?

Mr. MAZUR. Accurately stated, sir. Yes, it's an incremental question at this time.

Senator GORTON. It's an incremental question at this time.

Mr. **Mazur**. I would offer also that there may have been some numbers thrown around with regard to the costs, additional cost for this slowdown, or 3-year delay. That number is in the 750 to a billion dollars, which on the assumption the plant would have to be built, would be additive to the bottom line cost at that time. That's another threat that exists.

Senator **Gorton**. Now, I'd like to ask you a question which was placed to Mr. Johnson while he was here, simply to see whether you confirm or differ with that.

The rate schedule which BPA is about to implement, will cover this debt service of $648 million per year, is that not correct?

Mr. **Mazur**. That's my understanding with one caveat, Senator. I believe that the rate that Mr. Johnson had set took into account that consideration. And if in the process of negotiations of setting this loan in place, the rates that he assumed, the interest rate that he might assume for the borrowed money, were different. Therein might be the only——

Senator **Gorton**. I think you may have missed my question. I'm only talking about the $648 million, which you're obligated to pay in any event whether you go ahead or not. That is included in that——

Mr. **Mazur**. Excuse me. Yes, sir, you're right. It's there.

Senator **Gorton**. And as is catching up on the obligations to the Federal Government.

Mr. **Mazur**. Yes.

Senator **Gorton**. And in addition to that, my understanding, and I trust it's yours, but I want you to answer this question. Is that he has enough in that rate base to do one of two things, either to pay for the completion of unit 2 out of current revenues, together with mothballing 3, or based on the assumptions that you made earlier to cover the debt service for what we would hope to be the terms of repayment, obligations to complete both 2 and 3.

Mr. **Mazur**. That's my assessment too, that's right.

Senator **Gorton**. Now, my last question is one just of curiosity, and maybe relates to the unfortunately ill-starred record of WPPSS before you were in any way associated with it. I'm looking at this table on page 5, and I find it curious, and would like an answer if you can give it to me, why it is that WNP1 has taken almost as much money to get 63 percent completed as WNP2 has to get 98 percent completed. That's simply that there were fewer problems in constructing 2; that it was done more efficiently, or why?

Mr. **Mazur**. On 2?

Senator **Gorton**. Yes.

Mr. **Mazur**. First of all, the debt service on the borrowing for No. 2, which came first, was at a cheaper rate. And these costs that you're looking at include the cost of construction and debt service until commercial operation.

Senator **Gorton**. And so the same thing would hold in any kind of comparison of 2 and 3?

Mr. **Mazur**. Roughly that's correct. I do want not to mislead you, the plants are different. And there are some volumetric differences that have some more hardware, and things like that. No. 1 is much bigger than No. 2. But basically the first answer I gave you is the reason.

Senator **Gorton**. Thank you.

The **Chairman**. The completion and noncompletion is the availability of about 500 million kilowatt hours per year to sell.

Mr. **Mazur**. Must have done the calculation. It sounds about right.

The **Chairman**. That's the total plant capacity at 60 percent utilization?

Mr. **Mazur**. That's true. The other point I wanted—is we bat around 1,100 megawatts, and 1,200 megawatts, those plants on an annualized basis will be rougly 70 percent available, or roughly 700 megawatts.

At Mr. Collins' projection of 1½ percent against the 16,000 megawatt system out there, it would take you roughly 3 years to develop the need for one of those nukes based upon that.

So it's not something that is way off in the distance, and given the time it takes me to finish those plants, and check them out. There's no reason to believe they wouldn't be there when you need it, just when you need it.

The **Chairman**. I appreciate your testimony. I might just underscore for the record my own conviction that surpluses are far less damaging than shortages. And I think our experience in the Northwest has proven that to be the case over many, many years. There are those who now suggest to us that surpluses are too expensive to bear, but your testimony indicates that we would deal with shortages without these plants, and we would not deal with surpluses with these plants. Therefore, that question may be moot.

Gentlemen, thank you very much for your appearance and testimony, and your willingness to answer. Again, there may be some written questions to be submitted to you for answers for the record.

Thank you very much.

We'll next hear from Robert Greening, manager of the Public Power Council; Mr. Dan Westlind, general manager of the Central Lincoln Public Utility District; and Mr. Jim Boldt, executive director of the Washington Public Utility District Association.

Mr. Greening.

## STATEMENT OF ROBERT GREENING, MANAGER, PUBLIC POWER COUNCIL

Mr. **Greening**. Thank you, Mr. Chairman. The Public Power Council, of which I'm the manager, represents the 115 preference customers of the Bonneville Power Administration in all of the States of the Northwest.

Very few of these preference customers have any power sources of their own. Almost all are completely dependent on Bonneville for their entire supply.

We appreciate the chairman and the other cosponsors taking the initiative to introduce legislation to assist in resolving some of the WPPSS problems. Of course, we may disagree with you from time to time, but we know that you have the best interests of the region at heart. And you, like we, are anxious to resolve those problems.

We're hopeful that this hearing, and the hearing which Congressman Dingle has scheduled for September, will be a beginning in building a consensus for the kind of legislation which will satisfy all of the needs in the Northwest, or at least a substantial part of them.

The utilities we represent are the ones who are paying the costs of the net-bill plants; 1, 2, and 70 percent of 3. We are the ones who are the hardest hit by the WPPSS costs. And we are the ones who don't want to—want to make sure we don't make a decision which hits us with more costs.

There's one thing I would like to say at the outset, because it's been overstated here, I think, today several times. This is not a choice between not building the plant, and building the plant. We all agree the plant is needed; we expect that the plant will be completed and used in our loads. The choice is between immediate resumption of construction, and a 3-year moratorium which is the present Bonneville decision.

And also, Senator McClure, because you mentioned it just recently, our estimates, and I think those of the Power Council and Bonneville, plus the prospect of more power coming on when Revelstoke is finished on the BC hydrosystem, demonstrate that the prospect of actual curtailment; that is, a shortage, is very, very low; probably nonexistent. So I think we're really talking about here the price that we have to pay for the power, whether it's cheaper to bring this plant on now; whether it's cheaper to bring it up in 3 years and suffer the risk of having to buy power, for example, from BC hydro at a high price. The real question is one of cost.

The points I want to make are simply stated in my written testimony. First, let's build No. 2. I don't think there's anyone who disagrees with that, or there are very few that disagree with that, and we believe now with the GAO report, that Bonneville will be able to finish No. 2 without any problem. We welcome that.

The second point is that the risks and the costs that we're talking about here are borne by the preference customers primarily.

The third point is, and I think maybe this has been misinterpreted, we are not trying to stop the completion of No. 3; we simply believe that the question of immediate resumption, or the question of a 3-year delay, is one that requires additional information. And we think that's going to be available very soon.

Remember there are only two firm power customers of Bonneville; ourselves, and the direct service industries. The privates only buy a token amount of firm power from Bonneville. Actually, most of the transactions with Bonneville between Bonneville and the private utilities are through the exchange by which Bonneville pays hundreds of millions of dollars each year to the private utilities.

The net-billed plants that we're talking about are part of the Federal-based system. The Federal-based system makes up the majority of the costs, and the priority firm rate, which is the rate which we pay for our power. Our problem is that the DSI say "we are already paying too much." They don't like the price they're getting right now. And, therefore, if the DSI's are unwilling to shoulder part of the additional costs, then the priority firm customers are going to be the ones who pay.

Bonneville has decided to mothball the plant, extend construction, I should say, for 3 years, because the supply system can't borrow any money, and Bonneville has, we think, correctly decided that the financial risk of financing the plant through rates is too high.

Now, S. 1701, and section 317 of the Appropriations bill, propose to give Bonneville new authority to contract with a new entity in order to get more money to finance a completion of No. 3. We do not support either of those bills at this time, because we simply believe there are too many unanswered questions.

For example, what is this entity, and what are the terms of the financing. Is it cheaper to build now, or is it cheaper to delay 3 years.

The May 26 analysis of Bonneville said the costs were about the same. Peter Johnson testified earlier it was about $250 million more, but that's out of a present value system of 54 billion. So it's a very, very small amount. They're almost the same in a present value basis.

And the question of when we need the power is an important one. Right now our loads are on a very, very low load growth path. Lower, in fact, than the Council's 0.7 low growth path.

Exhibits 1, 2, and 3, which I have attached, point out what we think is a conservative estimate of the timeframe in which these plants might be needed, in which 1988 on a very conservative estimation, and sometime after 1990. That's assuming that we are going to use the plant for our own loads, not sell it to California. If, of course, we can sell it to California, that's terrific, and we certainly hope that we'll be able to sell it for the cost to complete, plus the operating costs.

Finally, of course, we're interested in the impact on rates, and Bonneville's financial stability, which is in all of our interests.

We are especially interested in looking at the Bonneville analysis to which Peter Johnson referred earlier, examining various financing and construction schedule alternatives. We think this will give us a better idea of what is in the best interest of our rate payers.

In conclusion, we have a task force working on this question, what is the appropriate legislation. This hearing, I hope, is the beginning to building a consensus for the right kind of legislation. I hope we start building that consensus back in the region as soon as we get back here after this hearing.

[The prepared statement of Mr. Greening follows:]

Thank you.

BEFORE

# UNITED STATES SENATE

# COMMITTEE ON ENERGY AND NATURAL RESOURCES

TESTIMONY OF

ROBERT GREENING, MANAGER

PUBLIC POWER COUNCIL

REGARDING

S. 1701, A Bill To Impose Specific

Directives on the Bonneville Power Administration.

August 3, 1983

## INTRODUCTION

The Public Power Council represents the 115 consumer-owned utilities of the Pacific Northwest, who are the Bonneville Power Administration's preference customers. These city utilities, public and people's utility districts, and electric cooperatives are located throughout the Bonneville service area in Idaho, Oregon, Washington, western Montana, and parts of Wyoming, Nevada, Utah, and northern California. We serve about 40 percent of the region's consumers. It's important to remember that all but about ten of these 115 utilities are totally dependent upon Bonneville for their power supply.

Important, too, is the fact that these utilities have been hit the hardest by the soaring costs of plants 1, 2 and 3 being built by the Washington Public Power Supply System. We are here today to urge the Senate not to make a hasty decision that saddles our ratepayers with additional and unnecessary risks and costs.

PPC commends the Chairman and other co-sponsors of S. 1701 for your continuing interest and concern about Northwest electric power matters. Even though we may disagree with you from time to time, we know that you, like we, are anxious to resolve the problems spawned by the WPPSS construction program. The region must get on with other business.

Although we recognize that resolution of the WPPSS-related problems may require federal legislation, we see no compelling reason for undue haste and piecemeal solutions. In this light, we regret the process by which Section 317 of the Interior Appropriations Bill was developed. Having personally helped to draft that legislation, I know that the drafters had the best interests of the region in mind. But without public involvement, an understanding with key members of the House of Representatives, and a consensus among the principal power industry groups, the well-meaning effort was doomed to failure.

PPC therefore welcomes today's hearing as an essential beginning in building consensus among Senate, House and the Northwest itself on both the need for legislation and its key provisions. This hearing and the September 15 hearing scheduled by Congressman Dingell will provide opportunities for the public involvement to which we are committed. The Public Power Council looks forward to working with our senators and congressmen for the benefit of all the region's ratepayers.

## SUMMARY OF MAIN POINTS

Let me summarize my four principal points:

(1) Bonneville's preference customers strongly and unequivocally support the completion of WPPSS plant No. 2. If necessary, Bonneville should be given authority to pay for that construction directly from rates.

(2) The risks and costs of either delay or construction of plants 1, 2 and 70 percent of 3 fall principally on BPA's preference customers; therefore, the risks and costs to these customers must be minimized.

(3) No one has sufficient information to determine whether immediate resumption of construction of plant 3 is in the best interests of our ratepayers. Until we do, we must resist immediate resumption of WNP-3 construction.

(4) The needed information should be available in the next two to six weeks.

## FINISH PLANT NO. 2

WPPSS Plant No. 2 is 98 percent completed. This plant is essential not only to the region's power supply but also to the credibility of the regional nuclear program. Because WPPSS is unable to borrow to finish the plant, BPA has included the necessary funds in its most recent rate proposal. However, Bonneville's authority to finish paying for construction in this way has been questioned. The issue should be resolved in an opinion expected soon from the General Accounting Office. We support federal legislation, if necessary, to ensure that BPA can expeditiously complete plant 2 either from rates or borrowing.

## BONNEVILLE'S PREFERENCE CUSTOMERS TAKE THE RISKS AND PAY THE COSTS OF DELAY OR CONSTRUCTION OF PLANTS 1 AND 3.

To understand the risk to BPA's preference customers, keep in mind that Bonneville has only two principal firm power customers: consumer-owned utilities and the direct service industries. The region's investor-owned utilities buy only a token amount of firm power. BPA does, however, pay a great deal of money annually to the investor-owned utilities as a result of the power Exchange established by the Pacific Northwest Electric Power Planning and Conservation Act ("Regional Act").

The WPPSS net-billed plants are "Federal base system resources." The priority firm rate from BPA, under which preference customers buy their power, includes all the costs of these resources, whether operating or not. Most of these utilities have no other source of power. Nor do they have the flexibility of the direct service industries or investor-owned utilities to move out of the region, negotiate with other suppliers, or draw from their own resources.

The direct service industries have told us, in an expensive advertising campaign, that their BPA rates are already too high. Without the DSIs shouldering part of the risks and costs of delay or construction of plants 1 or 3, the burden falls on the priority firm customers. Moreover, if plant 3 is completed, we can expect some investor-owned utilities to exchange part of their 30 percent share of plant 3 for lower-cost priority firm power, thereby throwing even more of that plant's cost onto BPA's preference customers.

## WE DON'T HAVE THE INFORMATION TO DECIDE WHETHER TO EXTEND CONSTRUCTION FOR THREE YEARS ON PLANT NO. 3 (BPA'S DECISION) OR TO RESUME CONSTRUCTION IMMEDIATELY.

BPA has decided to extend the construction of Plant 3 for three years. WPPSS cannot borrow to continue construction, and Bonneville correctly concluded that financing full construction of No. 3 from BPA's rates would greatly increase BPA's financial risk. It is now proposed, in this legislation, to give BPA the authority to borrow money from a different "entity" to complete the construction of Plant 3. PPC does not believe that BPA should have that authority at this time.

There are simply too many unanswered questions. Let me illustrate with a few of the more important ones:

- What is the "entity" and how will it function? What are the financing terms to be offered by the "entity"? How much will BPA be able to borrow, at what interest rates, for how long, and from what institutions? Will these new financing arrangements require a court test? Will BPA have sufficient control over the "entity"? Is the authority to be granted BPA by federal legislation narrowly confined?

- Is it cheaper to build plant 3 now or delay it for three years? In its May 26 Analysis of Resource Alternatives, Bonneville concluded that, on a net present value basis, continuing construction on the then-current schedule was about the same as a three-year delay. That analysis assumed that prudent financing would be available at low interest rates for continued construction.

- Does the region need the power? The Northwest is presently on a very low electric-load-growth path, lower in fact than the "low load growth" scenario established by the Northwest Power Planning Council. Exhibits 1, 2 and 3 demonstrate that, even under the more conservative medium-high load growth case, we don't need the plant until 1988. If our conservation programs are as successful as the Council predicts, the region won't need Plant 3 until after 1990.

- Can we sell the power we don't need to California? Currently, we don't even have an agreement on the principles of a long-term firm power sale from the Northwest to California. Will the price of such a sale cover the additional cost to complete plant 3 plus the operating costs? Financing BPA's share of the remaining capital cost of plant 3 ($961 million) at 12 percent over the 30 year plant life would cost 2.4 cents per kilowatt hour. Adding the capital cost to the probable operating costs of at least 2 cents per kWh suggests that we will have to sell plant 3's output for 4.5 cents just to break even on the additional risk. BPA recently sold a block of power to California for 3 cents. When the price of oil is about $30 per barrel, as it is now, oil-fired generation costs 3.5 to 4 cents per kWh.

- How will BPA's rates be affected by delay or construction? In its May 26 analysis, Bonneville estimated that the priority firm rate would go up an additional 20 percent to finance the construction of plants 2 and 3 from revenues. BPA rejected that option because of the financial risk to BPA. How do different financing terms and construction schedules affect our rates and BPA's financial stability? We already know our ratepayers' response to higher rates: they're using a lot less electricity.

## WE'LL HAVE BETTER INFORMATION IN TWO TO SIX WEEKS.

Information needed to answer many of these questions will be available in two to six weeks. The General Accounting Office is currently considering three Bonneville matters: (1) BPA's authority to pay for WPPSS construction directly from rates; (2) BPA's oversight of the WPPSS projects; and (3) BPA's method of repaying the federal investment in the Federal Columbia River Power System. These opinions should help us to focus on the need for legislation, BPA's financial condition, and provisions necessary for any new financing entity. The first opinion is due at any time; the others are completed and under internal GAO review.

The Washington Supreme Court invalidated the Participants' Agreements signed by the Washington municipal and PUD participants in the WPPSS 4/5 projects. An Oregon lower court issued a similar ruling on the authority of the Oregon municipal and PUD participants. But all the 43 electric cooperatives who signed up for the plants still have potential liability. Many of those cooperatives, supported by their national organization, oppose any federal solution to the WPPSS problems that excludes WPPSS 4/5. However, they may have a different perspective after the Washington Superior Court rules on their liability, probably within a week.

Exhibits 1, 2 and 3 show that the region's need for plant 3 is not immediate. However, Bonneville's new load forecast is nearly ready. More importantly, BPA should complete new studies to determine both the long-range and short-range economic impacts of various plant 3 construction schedules and financing arrangments within four to six weeks.

## CONCLUSION

In conclusion, I thank you again, Mr. Chairman, for this opportunity to testify. Naturally, because no one yet has sufficient information to decide on the best legislative course of action, we can't support S. 1701. But we are anxious to work with you and members of the House to develop the right legislation. We call upon other regional interest groups to join with us in building the necessary consensus.

EXHIBIT 1

PUBLIC POWER COUNCIL STAFF ANALYSIS OF PROJECTED REGIONAL LOAD/RESOURCE BALANCES,
1983-1995, USING NORTHWEST POWER PLANNING COUNCIL LOAD GROWTH CASES
(all units are average megawatts)

| YEAR | 1983-84 | 84-85 | 85-86 | 86-87 | 87-88 | 88-89 | 89-90 | 90-91 | 91-92 | 92-93 | 93-94 | 94-95 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **LOADS AND RESOURCES** | | | | | | | | | | | | |
| FIRM ENERGY LOADS | | | | | | | | | | | | |
| CASE | | | | | | | | | | | | |
| HIGH | 17395 | 18189 | 18855 | 19490 | 20081 | 20514 | 21049 | 21661 | 22342 | 23064 | 23799 | 24545 |
| MED-HI | 16832 | 17344 | 17817 | 18313 | 18738 | 19108 | 19547 | 20047 | 20589 | 21149 | 21715 | 22791 |
| MED-LOW | 16498 | 16866 | 17223 | 17631 | 17996 | 18324 | 18607 | 19059 | 19417 | 19812 | 20247 | 20710 |
| LOW | 16016 | 16052 | 16122 | 16296 | 16431 | 16544 | 16714 | 16874 | 17021 | 17108 | 17409 | 17552 |
| NEW PROGRAMMATIC CONSERVATION | | | | | | | | | | | | |
| CASE | | | | | | | | | | | | |
| HIGH | 0 | 150 | 260 | 370 | 480 | 788 | 1096 | 1404 | 1711 | 2019 | 2327 | 2635 |
| MED-HI | 0 | 150 | 245 | 340 | 435 | 678 | 971 | 1165 | 1408 | 1651 | 1894 | 2138 |
| MED-LOW | 0 | 150 | 238 | 327 | 415 | 616 | 817 | 1018 | 1219 | 1420 | 1621 | 1823 |
| LOW | 0 | 150 | 228 | 307 | 385 | 405 | 424 | 444 | 464 | 483 | 503 | 523 |
| FIRM RESOURCES | | | | | | | | | | | | |
| WITHOUT WNP #1,2,3 | 17647 | 17771 | 18098 | 18045 | 17855 | 17774 | 17286 | 17283 | 17258 | 17201 | 17201 | 17295 |
| ADD WNP #2 | 298 | 715 | 715 | 738 | 770 | 770 | 770 | 770 | 770 | 770 | 770 | 770 |
| ADD WNP #1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 68 | 813 | 813 | 818 | 876 |
| ADD WNP #3 | 0 | 0 | 0 | 467 | 811 | 819 | 851 | 874 | 874 | 874 | 874 | 874 |
| TOTAL | 17945 | 18486 | 18813 | 19250 | 19436 | 19363 | 18907 | 18995 | 19715 | 19658 | 19663 | 19815 |
| **LOAD RESOURCE BALANCES UNDER ALTERNATIVE SCENARIOS** | | | | | | | | | | | | |
| FIRM SURPLUS(DEFICIT) WITH WNP #1,2, WITH NEW PROGRAMMATIC CONSERVATION AND WITHOUT WNP #3 | | | | | | | | | | | | |
| CASE | | | | | | | | | | | | |
| HIGH | 550 | 447 | 218 | -337 | -936 | -1182 | -1897 | -2136 | -1790 | -2261 | -2683 | -2969 |
| MED-HI | 1113 | 1292 | 1241 | 810 | 322 | 114 | -570 | -761 | -340 | -714 | -1032 | -1212 |
| MED-LOW | 1447 | 1770 | 1828 | 1479 | 1044 | 836 | 176 | 80 | 643 | 392 | 163 | 54 |
| LOW | 1929 | 2584 | 2919 | 2794 | 2579 | 2405 | 1766 | 1691 | 2284 | 2069 | 1883 | 1812 |
| FIRM SURPLUS(DEFICIT) WITH WNP #1,2, WITHOUT NEW PROGRAMMATIC CONSERVATION AND WITHOUT WNP #3 | | | | | | | | | | | | |
| CASE | | | | | | | | | | | | |
| HIGH | 550 | 297 | -42 | -707 | -1416 | -1970 | -2993 | -3540 | -3501 | -4280 | -5010 | -5604 |
| MED-HI | 1113 | 1142 | 996 | 470 | -113 | -564 | -1491 | -1926 | -1748 | -2365 | -2926 | -3350 |
| MED-LOW | 1447 | 1620 | 1590 | 1152 | 629 | 220 | -641 | -938 | -576 | -1028 | -1458 | -1769 |
| LOW | 1929 | 2434 | 2691 | 2487 | 2194 | 2000 | 1342 | 1247 | 1820 | 1586 | 1380 | 1289 |

NOTES:

1. Regional firm load forecasts in average megawatts and are taken from the "Northwest Conservation and Electric Power Plan", Volume 1, Table 6-1, page 6-3, Northwest Power Planning Council, April 27, 1983.

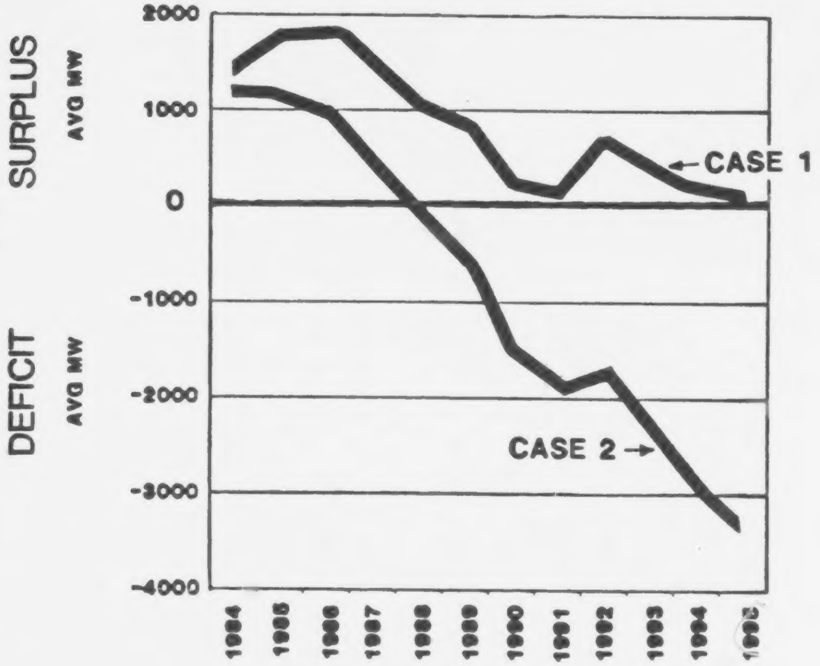
2. New programmatic conservation forecasts are in average megawatts and are taken from the "Northwest Conservation and Electric Power Plan", Volume 1, Table 10-1, page 10-5. The estimates taken from this table were interpolated to obtain annual estimates.

3. Firm resources are in average megawatts and are taken from the Bonneville Power Administration "Resource Planning Report," of the Generation Planning Branch, June 28, 1983. Resources include: Hydro (at Critical Water), Small Thermal and Miscellaneous, Combustion Turbines, Centralia, Trojan, Jim Bridger, Colstrip #1, 2, 3, 4, Boardman, Valmy, and WNP #1, 2, 3. Firm resources do not include planned resource acquisitions, billing credits and conservation.

II:2:24

# PROJECTED REGIONAL LOAD/RESOURCE BALANCES

## WITHOUT WNP-3



LEGEND:

▬ Case 1: Projected surplus or deficit with medium-low load growth with programmatic conservation

▬ Case 2: Projected surplus or deficit with medium-high load growth without programmatic conservation

NOTES:

1. Regional firm load forecasts in average megawatts and are taken from the "Northwest Conservation and Electric Power Plan", Volume 1, Table 6-1, page 6-3, Northwest Power Planning Council, April 27, 1983.

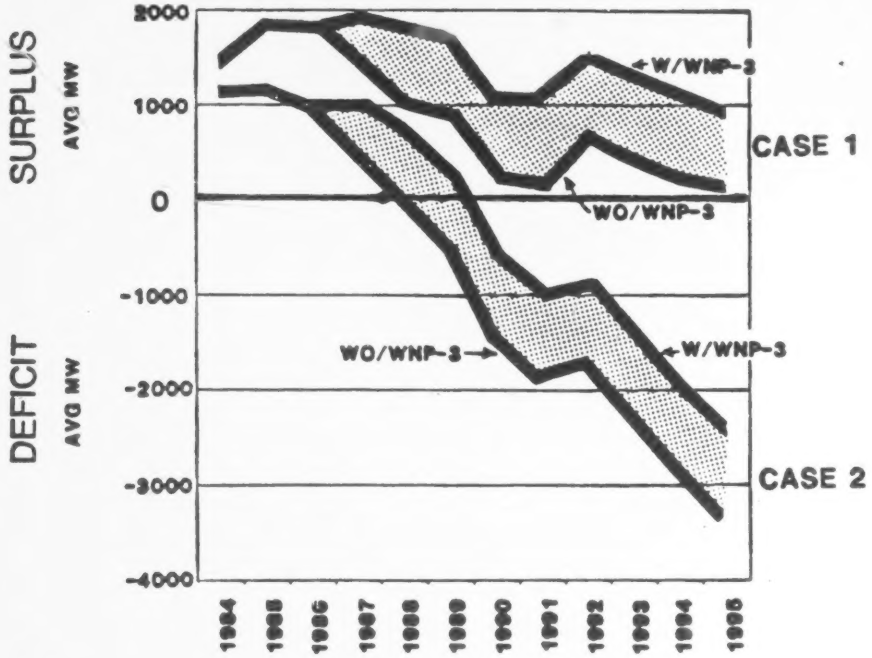
2. New programmatic conservation forecasts are in average megawatts and are taken from the "Northwest Conservation and Electric Power Plan", Volume 1, Table 10-1, page 10-5. The estimates taken from this table were interpolated to obtain annual estimates.

3. Firm resources are in average megawatts and are taken from the Bonneville Power Administration "Resource Planning Report," of the Generation Planning Branch, June 28, 1983. Reserves include: Hydro (at Critical Water), Small Thermal and Miscellaneous, Combustion Turbines, Centralia, Trojan, Jim Bridger, Colstrip #1, 2, 3, 4, Boardman, Valmy, and WNP #1, 2, 3. Firm resources do not include planned resource acquisitions, billing credits and conservation.

EXHIBIT 2

# PROJECTED REGIONAL LOAD/RESOURCE BALANCES

## RANGES WITH AND WITHOUT WNP-3



LEGEND:

▬ Case 1: Projected surplus or deficit with medium-low load growth with programmatic conservation

▬ Case 2: Projected surplus or deficit with medium-high load growth without programmatic conservation

NOTES:

1. Regional firm load forecasts in average megawatts and are taken from the "Northwest Conservation and Electric Power Plan", Volume 1, Table 6-1, page 6-3, Northwest Power Planning Council, April 27, 1983.

2. New programmatic conservation forecasts are in average megawatts and are taken from the "Northwest Conservation and Electric Power Plan", Volume 1, Table 10-1, page 10-5. The estimates taken from this table were interpolated to obtain annual estimates.

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**EXHIBIT 3**

The **Chairman**. Thank you very much.

Mr. Westlind.

## STATEMENT OF DAN WESTLIND, GENERAL MANAGER, CENTRAL LINCOLN PEOPLES' UTILITY DISTRICT

Mr. **Westlind**. Thank you, Mr. Chairman. I'm Dan Westlind, manager of Central Lincoln Utility, and I'm also speaking for the other three Oregon PG's, those that are active.

I support this legislation solely because it gives Bonneville another financing tool that it could use in connection with the net-bill project. I do not, however, believe that all the WPPSS plants may necessarily be built. That is a decision that will be made in the future. This legislation simply gives us in the region a better set of choices or options.

Thank you, Mr. Chairman.

The **Chairman**. Thank you very much, Mr. Westlind.

Mr. Boldt.

[The prepared statement of Mr. Westlind follows:]

Testimony of

DAN WESTLIND, General Manager

Central Lincoln Peoples' Utility District

Newport, Oregon

before the

SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES

August 3, 1983

My name is Dan Westlind. I am General Manager of Central Lincoln Peoples' Utility District. Central Lincoln is the largest peoples' utility district in the State of Oregon with its headquarters in Newport, Oregon. I am also speaking today on behalf of the other three active peoples' utility districts in the State of Oregon: Northern Wasco, Clatskanie and Tillamook. These four districts serve approximately 50,000 accounts reflecting a population in excess of 150,000 persons.

The Oregon utility districts purchase virtually all their electric power requirements from the Bonneville Power Administration. These districts participate in the net billing arrangements with the Washington Public Power Supply System Nuclear Projects Nos. 1, 2 and 3 through Bonneville. Each of the districts has also executed Participants' Agreements for the now terminated WPPSS Nuclear Plants Nos. 4 and 5.

As this Committee is aware, there is extensive litigation involving the participation of various utilities in the WPPSS 4/5 Projects. The Supreme Court of the State of Washington ruled that the Washington public agencies lacked authority to participate in the manner set forth in the WPPSS Participants' Agreements. The Supreme Courts of Oregon, Idaho and Wyoming have not ruled on the authority of the public agencies in those States. Confusion reigns about the obligations and responsibilities of the participants. Litigation, rising costs, a poor economy in the Northwest, regulatory restraints, applicability of bankruptcy laws, and questions about the need for power have paralyzed decision making and jeopardized the future of the Region's power supply.

To date public power ratepayers have incurred approximately $6 billion in debt in connection with net-billed Nuclear Projects Nos. 1, 2 and 3. These are Federal Base System resources. These three resources were "assumed to be completed on schedule" by the Northwest Power Planning Council in its preparation of the 1983 Northwest Conservation and Electric Power Plan (p. 6-1).

The net-billed costs will be borne by the ratepayers of the Region even if none of the projects are completed. The investor-owned utilities have also invested millions of dollars as owners in Project 3. WPPSS 2 is approximately 98% complete, WPPSS 3 is approximately 74% complete, and WPPSS 1 is approximately 63% complete. The problems mentioned above have made it difficult, if not impossible, to finance the completion of these projects.

In the current 1984-85 Bonneville rate case, the agency has included about $697,464,000 in revenue requirements to pay debt service, construction and preservation costs for the net-billed projects.

| | Debt Service | Construction | Preservation |
|---|---|---|---|
| WNP 1 | $51,745,000 | | |
| WNP 2 | $281,279,000 | $144,440,000 | |
| WN 3 | $159,000,000 | | $61,000,000 |

Certain individuals have challenged Bonneville's ability to pay costs of construction or preservation directly from rates.

Central Lincoln and the other Oregon districts believe it is essential that some mechanism be put in place to make it clearly possible to finance completion of the three net-billed nuclear projects. I do not at this time urge any particular completion schedule nor do I know if all of the plants should actually be completed. However, it would be a terrible waste of the federal investment and the ratepayers dollars if these projects were lost not because of lack of need but as a result of the inability of Bonneville to act.

The legislation before this Committee could provide at least one means for moving ahead with the financing of these projects. Should it appear that the power is needed by the Region, or can be marketed so as to reduce the already existing costs of the region, this legislation may provide a useful financing tool.

However, the legislation must address certain key concepts if it is to allow the economic completion of one or more of the Supply System net-billed plants. Bonneville should be given specific congressional direction as to how it should exercise its authority to complete any of the net-billed plants. The financing mechanisms authorized under the new law should be sufficiently flexible to allow Bonneville to obtain the most beneficial financing possible. The legislation should provide maximum assurance that the funds provided by Bonneville to complete the net-billed plants will go directly into paying obligations associated with these plants rather than the other Supply System facilities. Finally, the legislation should also provide financing mechanisms that can be implemented quickly enough to avoid terminating the net-billed plants as a result of delay rather than a conscious decision.

I recognize that it is far easier to state what legislation should accomplish than to specifically draft the provisions. Unfortunately, I don't have all the answers. I will pledge my support to work with you and your staff to answer these questions as soon as possible.

In conclusion, I believe it is imperative that the present investment by the ratepayers of the Region be protected by mechanisms which would allow the future of these plants to be determined in an orderly manner. This could mean completion on current schedules, delayed schedules, or termination; but, that decision should be made in the best interests of the Region's ratepayers rather than being dictated by an inability to act.

Thank you.

## STATEMENT OF JIM BOLDT, EXECUTIVE DIRECTOR, WASHINGTON PUBLIC UTILITY DISTRICTS, ASSOCIATION

Mr. BOLDT. Thank you, Mr. Chairman. I sincerely want to thank you for the opportunity to testify. We were quite concerned, as I know you know, that there wouldn't be such a hearing. And I want to go further and thank Senator Jackson for his interest in the hearing, and Senator Gorton's personal phone call of invitation to people in the region. I think it went a long way to disspelling some of the concern about the pace and activity. And I know how brave you are to step into this issue, and I really respect it. And to be quite frank——

The CHAIRMAN. Some people have described that differently.

Mr. BOLDT. Yes, I know. They question our intelligence, and we deal with it as well.

And we also know that the staff really does all the work, and they have been working very hard, and they all should get raises.

The Washington PD Association, many of its members are members of the Public Power Council, so I too will ask that, as you've stated, this testimony become part of the record. And I will try to summarize our concerns that have not yet been expressed by Mr. Greening. We are also the people who pay for these net-bill projects. We passed a resolution that unanimously opposed this legislation. And I'd like to take just a couple minutes and talk about some of the technical aspects, and then hope to share with you, and maybe create a feeling for why this—where this opposition came from, and why, because I think that's important as well.

If we are to move forward with the PPC task force, of which I'm a member, in August, and call parties together, we all have to understand some of the misgivings about this legislation.

We oppose it because we have a lot of questions, and some may be answered by a letter from you or your staff, but let's mention a few.

We're going to pay for it. We're going to pay for 70 percent of this project, or whatever this new entity comes to as far as the finance. We don't know what the interest rates are going to be. We don't know what the loan schedule is going to look like. We don't know what refinancing means. We don't know what the conditions of the refinancing will be. We don't know if it will be required of immediate money for paydown. We have absolutely no idea what this is talking about, but it's our money. It's money that goes from our ratepayer owners pockets to this entity; the Washington State Legislature has recently changed the law so that the elected commissioners of our systems no longer control the Washington Public Power Supply System, and so we're further frustrated about the draw of dollars. And I think that's a real concern on their part.

We're going to pay for certain costs of construction of Federal-based systems resources. Money that comes out of the Federal-based system pays for many things right now. You heard Mr. Collins express an interest that we're only going to pour concrete with this money in other words. We want to know, too, what is this Federal based system.

We're involved in 22 lawsuits, 22, in every court, and we've hired about 85 percent of the attorneys in the region. And there are payments pursuant to the settlements.

The CHAIRMAN. I'm sure the other 15 percent are wondering why they're left out.

Mr. BOLDT. Well, they haven't passed the bar yet. They'll be here next week. If this passes they'll be here tomorrow. They can smell a live one.

Back to the concern is that the settlement of litigation could end up coming through this process. If Chemical Bank slamdunks the 1, 3 projects, and its cost-sharing lawsuit, there goes money. We aren't 4 or 5 anymore, or we're in limbo, or we're going to be if the Supreme Court—right now my commissioners can't even talk about paying anything for 4 or 5, so if Chemical Bank lends to 4 or 5, we don't get the money we would have received some 2 or 3 months ago. Now, these are concerns that they have.

So I think the underlying concern that brought a unanimous vote in our association, the first time in 2 years was this. The Bonneville Power Administration about a year ago or so, stopped a project that was about 60 percent complete. And it continued with the project that was 50 percent complete, project 3. A lot of reasons. You know some of them. Some of them are because of insistance by some of the owners; some, I guess, in all honesty, were that the—let's keep the project going on the west side where the politics is a little more hot. We know that's a fact. Let's discuss it.

And so, although we objected to some degree, it was —No. 1 was brought down.

Now, we hear the Bonneville Power Administration in a report written on the 26th of May, tell us that they are now at a point where price elasticity demand is beginning to occur for them. I do not believe in death spiral. I do not believe in a long-term critical tailspin that's going to bring a monopoly utility down. But I do believe that at the wholesale level it's critical that we get no closer to this response than we have to.

Bonneville writes further in this report that if they proceed with No. 3, they will go from approximately 76 percent revenue, fixed revenue requirements, to somewhere around 90, 87, 88 percent. And we get closer to the wall. And the slightest little wiggle will bring Bonneville in a more deficit situation with regard to its revenues. Over $400 million short already this year, projecting a load sales next year of more, quantity of power, against which I have to honestly tell you they probably won't recover adequate revenues.

Now, we can pretend that we can sell power for ever and ever, but we're going to have to start working together to analyze all of our problems in the Northwest. We are critically impacting the physical integrity of the Bonneville Power Administration. We are not a group of utilities who sit at a side bar and watch this entity mix power and exchange it. It is our lifeblood in many cases. And that's critical to us.

So if this passes right away, contrary to the recommendation that it should come down for a few years in a mothballed status, we are concerned that with No. 2 coming on line, we may have a project that we can't sell. Now, we have to talk about that.

Where are the contracts from California? Where is the optimism coming from these meetings that I can't find with regard to a sale? What happens if the project is completed and we can't sell it?

There are ramifications of the Bonneville Power Act, and the Regional Power Act, that in the case of surplus with thermal, bring Bonneville less revenues, bring us a situation where average system cost prices increase for us because of the private sector can't use the resource, and it becomes part of their system costs, and this is all in our minds.

We read here where Bonneville says the analysis show that a net present value basis that a construction extension of 3 years of No. 3 would not significantly increase the total present value of system costs, and delayed around 5 years would.

We listen to this, and then we wonder how can we go ahead right now, with all of these questions. I concur with Mr. Greening, our people want No. 2 done with exception of 5 or 6 out of 120 people we deal with. I believe that they want adequate resources, they want them at the lowest possible cost. But we have been through hell.

Present power company officials have not been fired. Their boards of directors have not been recalled. We have. And that's the type of sensitivity that brings a unanimous negative vote to this until we can get some questions answered. And I hope that the work in our task force will help answer some of those questions. I hope that you can help us answer some of them, and we can get out of this. Don't turn around and look over your shoulder because 4 and 5 are standing there. When we can be assured that that mess will not impact the future financing and liability of these projects, we're going to feel a lot better. We know a lot about 4 and 5. We know how they're hooked to the other two projects. We've looked at bankruptcy. We've looked at the China Wall, or building the Wall. We know the implications of the bond indenture, and the bond resolution on those issues. This is not a small little let's-hurry-get-a-project-done. I think you know that. There's so much that has to be checked. One more goof with the Bonneville Power Administration at a 90-percent cost—fixed cost situation, could cause the major problem that we're all concerned about. Just a total flattening of revenue coming to that system.

Help us with our task force. We'll help you with your legislation, and maybe we can get out of this. But right now we have to have a lot more answers and we can't support it.

And, in closing, you just have to believe that we know, at least I do, how sincere you are, and how brave you are to start this process, and we appreciate it. Thank you.

[The prepared statement of Mr. Boldt follows:]

TESTIMONY BEFORE THE UNITED STATES
SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES
SENATOR JAMES McCLURE, CHAIRMAN

Good afternoon Mr. Chairman, Ladies and Gentlemen:

My name is Jim Boldt. I am the Executive Director of the Washington Public Utility Districts' Association. Our Association represents 26 public utility districts in the State of Washington and their owner/ratepayers, as well as two joint operating agencies. The Association collectively represents over 500,000 electrical customers and systems that serve over 50% of the geographical area of the State of Washington.

We would like to thank you for the opportunity to testify on S. 1701. We were very concerned originally that there would be no chance for hearings and testimony on this issue. We truly appreciate the opportunity to express our views. We were pleased during the consideration of previous legislation that Senator Jackson expressed his concern for hearings and now as this bill comes forward we appreciate this committee's call for a hearing so that the public may be heard.

On July 26, 1983, the Board of Directors of the Washington Public Utility Districts' Association, with all but two members present, voted unanimously to endorse the following resolution:

> BE IT RESOLVED THAT, the Washington P.U.D. Association opposes Section 317 of the pending Interior Department Appropriations Bill. While we appreciate the interest and attention of Congress toward our regional energy problems we feel that Section 317, as written, fails to adequately and comprehensively address these problems. We further call upon all regional energy entities, our ratepayers/owners, the private utilities, and others to continue the process initiated by Congress and the private utilities toward addressing our pressing energy problems. Such a continuation, with appropriate public hearings and input, combined with

detailed studies of potential rate impacts, will allow us a proper forum to achieve a solution to our collective energy problems.

The Board of Directors of the Washington Public Utility Districts' Association is made up solely of locally elected public utility district commissioners. They took this action for the following reasons:

First, let me state that we support a completion of Washington Public Power Supply System project WNP 2. However, while this proposed legislation addresses that process, we have serious concerns over the broader aspect and timing of this legislation before you. Mr. Chairman we would like to put forth those concerns in this testimony; First, in the form of a technical critique of the language itself and then later in a general discussion about the energy situation in the Pacific Northwest, specifically the State of Washington.

We, the public utility districts, are customers of the Bonneville Power Administration. This federal agency is not a bureaucracy that merely represents a power mixer or exchanger for us. It is in many cases the life blood of power supply for the public utility districts. We therefore need to know more about any new authority granted to this federal agency before we can support it.

The legislation before us allows for the commitment and expenditure of our ratepayers' dollars through a new "entity." We are concerned about the makeup of this entity, how it would be established, who would establish it, and what its authorities and powers would be. Literally taken, if such an entity were to be formed that could issue this type of debt for this type of reason, we would imagine that under existing law we would see ourselves represented by perhaps a new giant irrigation district, a new state-wide public utility district, some other special purpose district, perhaps a state power authority, or in a whole different vein a new non-profit, private corporation over which we would imagine we would have very little control.

Control is a very important point for us these days. We are concerned about costs to our ratepayers. We are further concerned, in light of the recent

Washington State Supreme Court ruling, about entering into any agreements or being involved in agreements where the policy, oversight, and management control of our affairs are even further isolated from us. Recall if you will the clear statements by the Washington State Supreme Court in the Chemical Bank action. They ruled that without proper control, public utility districts lacked the authority to participate in contracts with a joint operating agency.

From a purely fiscal concern we are unable to obtain, information about the possible financial obligation made by this entity pursuant to this legislation. We need answers. What would be the conditions of a loan to this entity? What would be the interest rate? What would be the terms of the loan? To whom would it be paid? What is the imagined time frame for refinancing as mentioned in the Committee report in Section 317 and this legislation? What if refinancing is unavailable?

As you are aware, project No. 1 was mothballed over one year ago in a similar fashion as the recent mothballing of project No. 3. It is not clear to us that the intent of this legislation is to provide new authority for project 1 as well as 2 and 3. It would be important to us that this be clarified and that the definition of "federal base system resource" be defined so that we know which resources could be funded or financed by this procedure. If the definition of "federal base system resource" is too broad this authority could be used for the purchase of new generators on the federal base system dams, perhaps fishery programs, conservation programs and others which could be funded from the federal base system revenues pursuant to the Pacific Northwest Regional Power Act.

The legislation makes reference to the term "cost of construction" and that funds from the entity could be used for such costs. It is essential that this term be further defined. We are concerned that such payments may take money from our ratepayers to pay disgruntled, terminated contractors at projects 1 and 3. Likewise we are concerned that money may be taken for cost sharing lawsuit settlements to pay projects 4 and 5 for which we presently have no authority to pay for, due to the decision of the Washington

State Supreme Court.

There are additional questions in other areas which require answers in order to prepare comprehensive legislative solutions.

With our support for of completion project No. 2 and our concerns for the immediate needs for project No. 3 it would be wise to wait until the General Accounting Office has reported on the clarification of authority of the Bonneville Power Administration to fund construction of projects from rates. It would drastically realign support for various aspects of this legislation if we could hear the August 8th ruling by the Superior Court with regard to the cooperatively held utilities interests in projects 4 and 5.

We are also attempting to assess the cost-effectiveness and marketability of a major thermal resource (project No. 3) right in the middle of the Bonneville Power Administration's major reassessment of its rates and rate studies and load forecasts. It is impossible to assess the monetary impact of this legislation until these findings are made. And probably the most important point is to wait until the Regional Power Council can respond to a request for a cost-effective assessment of project No. 3. Those done prior to this time, in compliance with a now unconstitutional initiative, are now in question.

Allow us to discuss further the concerns we have with a forced march completion of any federal base system resource other than WNP No. 2. What are we going to do with project No. 3 if it is completed? If we use an unknown entity headed by yet to be announced personnel, to borrow an undetermined amount of money, at a "negotiable" interest rate to finish the project, what do we then have? Mr. Chairman, we have more surplus, and we have a diversion of capital from cost-effective conservation programs. (The Bonneville Power Administration has already asked the public utility districts of the State to assist in the financing of conservation programs to achieve Bonneville's responsibilities under the Regional Power Act.) We are hardily prepared to assist in that financing. However, we would be less able to assist if we are further strapped by untimely interest payments for the completion of a project we may not yet need. We are not sure No. 3 is needed immediately. We have nothing in place for out-of-region sales of our surplus thermal power. California does not want to purchase nuclear generated power, and they will not pay full thermal prices. A completion of the project now would further surplus the region with no clear progress for California sales.

Some agree that deferral of project No. 3 is more attractive than this mystery financing scheme. The costs are then not in the rate base and we get answers to the questions raised above relative to what California needs. The privately held utilities in the region would help buy up the surplus if they are short of power and Bonneville therefore will receive more revenue overall. It is important to point out that if the project is not completed, and if by chance (which we do not feel is the case) the investor-owned utilities are short of power at any time in the immediate future, the IOUs will purchase power from the Bonneville Power Administration at the new resource rate. This would bring more revenue to a fiscally beleaguered federal agency. If however the project is completed, the privately held utilities could then buy surplus power at dump costs under a provision which allows them to shut down their expensive thermal resources in time of surplus and purchase the FBS surplus at its lowest cost. This of course reduces the potential revenue to Bonneville and hurts us all.

There is a good chance that if we proceed under this legislation to immediately complete project No. 3, sometime in the future WNP 4 and 5 may fall on top of us all. The question of bankruptcy is not discussed or mentioned in the proposed legislation. The issue of separation of plants 4 and 5 from 1, 2, and 3 and its possibility is not discussed. Without some assurance or clarification of this problem it seems imprudent to further obligate ratepayers to a questionably needed thermal plant if a bankruptcy of the Washington Public Power Supply System on projects 4 and 5 is going to bring havoc to the whole program.

Is it wise for the Congress and the utilities to proceed with project No. 3 in light of the present activity in the Springfield lawsuit in the State of Oregon? This lawsuit, as you know, will test the provisions of the projects 1, 2 and 3 Participants Agreements and the net billing agreements. If the Congress, the Bonneville Power Administration, and the utility officials did not or could not write binding contracts for the net-billed projects, should we spend more money before this is tested and ultimately cleared up? Mr. Ratcliffe of the Bonneville Power Administration stated before the Public Power Council meeting of July 26, 1983, that we would probably have to first test this new law in court. He further mentioned that this legislation is not the preferred approach that should be taken at this time.

If everything went ahead to finish project No. 3 there is serious questions as to how soon and how effectively the project could be brought back to full construction mode considering the delay already implemented. The most capable project manager, Mr. Leddick, has left the scene. Other key staff people have left or are leaving the project No. 3 site.

Another concern we'd like to place before the committe is if this legislation fails and if project 3 continues on its present course of deferred construction, is it in fact a dead project? Many have raised the question in the region that mothballing project 3 is essentially termination of the project. While no one can definitely answer that question, we can refer to the identical action taken on project No. 1. We can remember that the Bonneville Power Administration recommended that, of the two projects under consideration for mothballing at that time, project No. 1, which was the most complete and furthest along, was chosen for mothballing. There was absolutely no concern or consideration about bringing project No. 1 out of mothball and into full mode construction sometime in the future. We therefore have to assume that the same attitude is warranted for project No. 3. If project No. 1 can be mothballed and brought back on so can project No. 3.

We have been trying to assess the reason for the investor owned utilities insistence upon immediate completion of this project. Do they need the power? It appears they do not. Nearly every regional forecast shows that the region will be in a power surplus throughout the 1980's, even with a three year deferral of project No. 3. Furthermore, the IOUs already have access to inexpensive federal base system power for their residential and small farm customers through the exchange provisions of the Regional Power Act. And finally, of the four IOUs who are 30% owners of WNP 3 some admit in their own company's load forecasts, which continue to predict high levels of load growth, that even without project No. 3 they will remain surplus through the decade. In fact, some of the IOUs are already attempting to sell their portions of a coal plant scheduled to be completed within six months.

Another concern we have with this legislation is its provisions for agreement on construction schedules and scheduled need for power and marketability by the Bonneville Power Administration and "the project owners" (meaning the four investor-owned utilities with 30% of the project). Where is it that 70% of the participants and ultimate purchasers of this project have any say? Where is it that the vast majority effected by the project get to participate in the discussion of marketability, need and financing? The legislation decisively cuts out the public sector in these considerations that will obligate them for a major part of the costs.

It should also be noted that the Washington State House of Representatives Special Committee on Energy Development and Financing is studying possible legislation that should be coordinated with any action being considered by Congress. Attached for your information is an outline of activity being considered by this committee.

Now I would like to briefly discuss some non-technical aspects of our concerns over this legislation. These concerns deal with the implementation of the Regional Power Act. The publicly held utilities were as supportive of this legislation as any sector. The final outcome has created a situation where it is unlikely a majority support could be mustered for the Regional Power Act at this time. The misgivings and ill feelings with the implementation of that legislation have made us shy with regard to legislative activity. The provisions designed to protect preference have seemed to dissipate. The rate test is proving difficult to implement and will probably have to be litigated. Many of these problems result from granting discretionary authority without adequate ability for public control. The legislation before us today proceeds without adequate protection of our ratepayer/owners and their share of the federal base system. We cannot support further discretionary authorities without proper procedural safeguards.

It is important for the Committee and public power utility officials to keep in mind that they represent customer/owners. We hear so much about the interest of stockholders that we often forget that our ratepayers are essentially our stockholders and to represent a concern about the financial impact on those people is as prudent and as responsible as those who cry out for the salvation of stockholders. The Washington Public Utility District Commissioners who are elected to regulate and oversee these publicly held utilities have and are witnessing a new and anxious interest in their utility systems. They have recently seen the recall of fellow commissioners who have been accused of being unresponsive to rates and of inadequately assessing the Washington Public Power Supply System problem and its impact on those ratepayers. It is in the wake of this activity that an increased sensitivity on the part of PUD commissioners has arisen. They cannot and will not be party to a quick fix that, when later read in the light of day, causes problems similar to those being experienced in the implementation of the Regional Power Act.

The litigation mentioned earlier in the State of Oregon regarding the net-billing agreements has to become a major consideration in this legislation. When the public utility districts of the State of Washington call upon others to join in the drafting of a more comprehensive plan to solve the region's problems, wouldn't it be wiser that we wait to see if there is a necessity for the inclusion of a clarification of the net-billing agreements, rate financing by the Bonneville Power Administration, clarification of certain segments of the Regional Power Act to protect our right to preference power, and perhaps an assessment and realignment of conditions under which surplus power can be sold outside the region with an interest to protect those of the region who need the power first?

In closing, I would like to mention what we have done and what we do support with regard to the Supply System projects. Enclosed for your information are sections of the Washington PUD Association's Resolution Committee Project. These two sections involve a regionalization program which we put forth to our members and was supported and later became the basis for discussions in Governor Spellman's negotiation attempt at this problem. And also the section pertaining to the Debt Reduction Plan which is self-explanatory and in our opinion was probably the last comprehensive train to leave the station with regard to this regional energy problem. It is unfortunate that leaders of the Bonneville Power Administration and other utilities lacked the foresight to support either of these projects at a time when they could have been implemented. Where we go from here is a more difficult task but we are still prepared to participate in a positive way.

Mr. Chairman I hope that these thoughts are helpful to you and your committeee as you deliberate the problems before you. We know so well that they are unprecedented and will require every resource available to you. As stated in our resolution, we will call upon other utility officials, ratepayer interests, customer/owners of the utilities, and the Bonneville Power Administration to discuss with us during the month of August this problem and how we might together and collectively solve it. Thank you for this opportunity to testify. We would like to answer any questions you have and assist you in your deliberations in the future.

**OFFICE OF PROGRAM RESEARCH**
House of Representatives

July 22, 1983

MEMORANDUM

TO: Members of the Special Committee on Energy Development and Financing (HFR 83-91)

FROM: Steve Lundin, Legal Counsel SL
Fred Adair, Senior Research Analyst FA

SUBJECT: Potential Issues and Areas of Inquiry

This second memo is intended to be of further help in establishing the agenda for the Special Committee. It is an expansion of the six items selected by the committee on July 16 from the July 11 paper plus two other issues raised during the meeting.

The next committee meeting is Friday, July 29 at 2 P.M. in the SeaTac Fire Station Conference Room, 170th and Air Cargo Road. Also scheduled is a meeting on Friday, August 19 at 2 P.M. in the Sea Tac Office Building, Suite 500, 18000 Pacific Highway South.

## 1. Resolution of WPPSS 4/5 Issues

### A. Securities Fraud Litigation

ISSUE

Washington public utilities were judged by the state supreme court to be not authorized to enter into the 4/5 contracts. Accordingly, some entities erred: Who, when, and how?

BACKGROUND

Seven and eight years after the fact there is a court finding of contract invalidity. Yet, there has been financial intercourse based on these contracts over a period of eight years. WPPSS and participating utilities entered into a participants agreement. WPPSS adopted a general bond resolution and made sixteen 4/5 bond issues between 1977 and 1981, with the participation of or agreement of, i.a., BPA, WPPSS, Participants, WPPSS Member Utilities, Bond Counsel, underwriters, and bond buyers. Rating agencies rated these bonds highly. No entity in the state governments of the six states having participants interposed objection to the bond issues or the participants agreement.

Mention has been made of bond counsel role and a difference between those of the east and west. The former are reported to primarily work for the underwriters whereas the latter's principal client is the bond issuer. WPPSS used the services of an eastern bond counsel firm throughout the troubled period.

The state government enacted the JOA, PUD and municipal utility statutes and, subsequently (until the Supreme Court action) was silent on the validity of the participants agreement, bond resolution, and bond issues.

QUESTIONS

-Did the Washington PUDs and municipal utilities undertake any formal determination beforehand whether they had authority to enter into the projects 4/5 participants agreement?

-Was there any questioning of their authority to enter into the agreements prior to 1983?

-Was such an analysis undertaken by the Supply System?

-How was this matter handled, if at all, by the cognizant bond counsel, underwriters, and rating agencies?

-Should municipal bond issuers be required to use the services of in-state bond counsel or, alternatively, require an attorney general opinion? Should there be a test court case?

-Should securing the services of bond counsel be put to bid?

-Is the state vulnerable to a securities fraud judgment?

-Should the state be be limited in any future bonding-related decisions or in revising JOA, PUD, or municipal utility statutes or general purpose government or special purpose district financing statutes?

B. Division of WPPSS Corporation

ISSUE

There is the possibility that settlemnt of 4/5 affairs could involve 1, 2, or 3 assets. This has precluded continued financing of 3.

BACKGROUND

It may be desirable to segregate the termintated projects 4/5 from the mothballed 1 and 3 and active #2 project by spinning off a separate corporation to handle 4/5 affairs. The mechanism for doing this could be devised and examined. The purpose in this consideration would be to make projects 1, 2, and 3 management and assets immune from the project 4/5 difficulties and resolutions.

Currently, federal legislation is being considered which would have the effect of making future (but not currently outstanding) borrowing for plants 2 and 3 and possibly #1 immune from 4/5 resolutions.

QUESTIONS

-Should there be an effort to segregate 4/5 from 1, 2, and 3?

-Is the current federal action (which is prospective only) sufficient?

C. Citizen Advisory Committee

ISSUE

Lack of oversight has been cited as a factor in the evolution of the WPPSS crisis. Should there be oversight in the resolution of the 4/5 situation?

BACKGROUND

It may be desirable to establish an advisory panel to WPPSS to assist in decision making on how the 4/5 situation could best be brought under control. Two purposes would apply to this possibility: To enable public input and bring relevant expertise to bear. The governor's recent action may satisfy this concern or there may be a need for such a body beyond the 90 day duration of the governor's panel.

QUESTION

-Is the governor's action sufficient or should there be additional action?

2. Revision of Joint Operating Agency Statute

ISSUE

The JOA statute enabled the formation of WPPSS, an organization whose makeup was such that it was bound to fail.

BACKGROUND

As structured, a JOA is removed some distance from the constituency which could exercise oversight over its actions. Additionally, as the law was prior to 1981, the JOA was not likely to include in its directorship the skills relevant to constructing major power plants, especially nuclear plants. The JOA decision body is one layer removed from the public utility constituency. If ratepayers in a particular utility are dissatisfied, they can only change their representative in the JOA or withdraw from the JOA. The latter action could involve considerable contractually imposed penalties. This public oversight problem is exacerbated as the number of JOA member utilities is increased.

Another problem is to assure expertise in JOA management for difficult projects such as nuclear power plant construction. In the case of WPPSS, the expertise was added statutorily, but too late. Moreover, this provision of expertise involved virtual elimination of whatever constituency oversight there was in WPPSS. Perhaps a standing joint legislative committee to oversee all JOAs (there aren't that many JOAs) or a public advisory body with x percent of the members having expertise relevant to the JOA's projects, or both, could be required by statute.

Some have asserted that the Interlocal Government Agreement Act provides sufficient basis for public utility cooperation in building power plants.

The argument has been advanced that public utilities are limited in a number of ways with the result that they should not be authorized to build major power plants. This point is raised again in item 4.

QUESTIONS

-Can a JOA have both effective constituency oversight and the assurance of expertise?

-Do certain powers need to be transferred or eliminated?

-Can a JOA be workable? If so, what review of a JOA should be required beyond the current requirement of filing with the department of ecology?

## 3. PUD Decision Making

ISSUE

Because PUDs are one of many special purpose districts, some argue that effective public oversight is not a practical possibility.

BACKGROUND

PUDs are one of 59 different types of special purpose districts that may be formed in Washington state. Most of these special purpose districts have separately elected governing bodies. These special districts are in addition to counties, cities and towns.

Questions can be raised concerning the ability of the public to scrutinize the actions of this vast array of governments and knowledgeably participate in elections to select these districts' governing bodies. Until recently it is arguable that few citizens could even name their PUD commissioners.

One way of diminishing this general anonimity would be to consolidate PUDs into county government or state government where public officials are more broadly known and, until recently, government decisions probably receive broader public scrutiny. A "part way" alternative would be to require the general purpose government to approve selected (major) PUD decisions.

QUESTIONS

-Should PUDs be made an element of county general purpose government?

-Instead, should certain specified major decisions have to be approved by county general purpose government?

-Are there ways to provide effective public oversight of PUD decisions without sacrificing any PUD independence?

4. Revision of Financing Authority Statutes

ISSUE

There is lack of uniformity and some conflict in municipal financing authority statutes.

BACKGROUND

Numerous units of local government have been authorized to borrow funds and issue bonds evidencing such debt. Many of these local governments can issue different types of bonds. With a few exceptions, each unit of local government that is authorized to issue a type of bond has a separate set of statutes authorizing it to issue that type of bond. These various sets of statutes frequently vary. This is especially true of statutes authorizing revenue bonds to be issued.

A single uniform set of statutes could be enacted for each of these types of bonds that would be used by each local government that is authorized to issue such bonds. This subject is being studied by the House and Senate Local Government Committees pursuant to Section 10 of SHB 390 (Chapter 167, Laws of 1983). A description of a potential difficulty with such varying statutes follows.

Two broad classes of revenue bonds have been authorized by our various statutes. "Net income" or second lien revenue bonds are the most common class of revenue bonds authorized in this state. The first lien on revenues from a project funded by "net income" revenue bonds is pledged to maintain the revenue generating facilities funded by the bonds, while the second lien on these revenues is pledged to retire the revenue bonds. "Gross income" or first lien revenue bonds have the lien priorities reversed with the first lien being pledged to retire the revenue bonds and the second lien being pledged to maintain the revenue generating facilities funded by the bonds. Cities and towns have been authorized to issue net income revenue bonds. Public utility districts (PUDs), and therefore operating agencies such as the Washington Public Power Supply System (WPPSS) by reference, have been authorized to issue gross income revenue bonds.

The existence of these two different classes of revenue bonding authority becomes quite a delicate issue when joint revenue generating projects are attempted to be financed through the issuance of revenue bonds. The WPPSS revenue bonds are gross income revenue bonds. The contracts pledging each WPPSS 4/5 participant's utility revenues to secure WPPSS 4/5 bonds are in the nature of gross income pledges. Since PUDs can issue gross income revenue bonds, this presents no problem for PUDs. However, cities and towns do not appear to possess the authority to make such gross income pledges. This ticklish situation could have been the subject of potential securities fraud litigation initiated by the holder of Tacoma City Light bonds if the supreme court had not invalidated the WPPSS 4/5 participant agreements on other grounds.

In addition to the conflict situation discussed in the previous paragraph, the first lien priority of gross revenue bonds, if JOA bonds had to be redeemed by, i.a., member municipal utilities, the affected cities could have to raise enough revenue to first meet bond redemption requirements and then provide essential services.

WPPSS bonds were issued on a take or pay ("Hell or High Water") basis. That is, bonds issued were to be paid back regardless of whether the generating facility were built. The participants agreement, bond resolution, and bond issue statements contained these provisions which the state supreme court later declared to be outside the authority of participating Washington public utilities. A take or pay contract obviously is a risk for the utility but enables a lower bond interest. The supreme court decision suggests that state law should expressly sanction or forbid such contracts.

As noted earlier, there is a viewpoint that public utilities are not capable of efficiently building major power plants and, therefore, should be precluded from doing so. Major power plants, then, would be financed and built by investor-owned utilities.

QUESTIONS

-Should gross income revenue bond issues be forbidden?

-Should there be consistency in local government and special purpose district financing authority?

-Should take or pay contracts be expressly sanctioned or precluded?

-Should publicly-owned utilities be statutorily precluded from financing and constructing major electric power plants?

## 5. Municipal Bond Financing: Limitations or Alternatives

ISSUE

Local governmental units have many and varied financing authorizations, without coordination or assessment of cumulative effect.

BACKGROUND

A broad spectrum of local governments exist in Washington state. Fifty-nine different types of special purpose districts can be formed in this state. This is addition to counties, cities and towns. Many of these local governments construct public improvements. Few have formalized capital construction planning processes. There is essentially no coordination between the capital projects of these different units of local government. Perhaps most importantly, there is no one keeping track of the total amount of outstanding debt of local governments and special purpose districts in the state. Collectively, we, could be getting in over our heads.

Revenue bond financing has become the customary method of financing these public improvements. There is essentially no monitoring of this financing. At a minimum, a record of the total number of financing issues outstanding and the dollar total could be maintained by, say, the state auditor.

QUESTIONS

-What public improvements will be needed in the future?

-What level of capital is available to fund these projects?

-Are alternative methods of financing these projects practical?

-Is there public benefit to have local government and special purpose district debt financing monitored by state government (the auditor)? Should the auditor have some control function?

## 6. State Public Utility Commissioner

ISSUE

**Oversight of or support for publicly-owned utilities.**

BACKGROUND

Because of the WPPSS difficulties, some have argued that both state level oversight over and assistance for public utilities is needed. This argument is carried further, with the view that there shoud be an assessment of the actions of public utilities to determine the collective impact on the state.

QUESTIONS

-Is there a need for state oversight of public utility districts, municipal utilities, or both, and a central source of information to public utility managers?

-Is there need for a means to assess the collective impact on the state of public utility actions?

7. Decommissioning Costs

ISSUE

Decommissioning of some energy facilities involves considerable expense, which must somehow be provided.

BACKGROUND

Decommissioning major energy facilities can be expensive. This is especially true if the site is to be restored to its original condition. Removing all traces of Grand Coulee Dam would be a sizeable undertaking. Nuclear plants involve much structure plus radioactivity cleanup of a minority fraction of the total structure. Coal plants involve considerable structure and possibly some action with respect to ash laydown areas. Costs of decommissioning varies widely with what is required. Notably, there is a great difference in cost between merely rendering the facility safe and total restoration of the site to its preconstruction status.

QUESTIONS

-What extent of decommissioning is required?

-How should decommissioning funds be acquired?

8. Investor Owned Utility Energy Facility Financing

ISSUE

Who pays the costs of plant(s) which don't get finished ("Dry Holes")?

DISCUSSION

A number of factors can result in power plants which do not get finished, such as load forecast changes, inability to finance, and changing laws. Often these barriers arise after considerable investment has been made.

Investor owned utilities are regulated monopolies. They have been expected to serve all customers seeking service. Yet there is increasing financial risk in maintaining a high level of assurance of being able to meet all service demands. Regulating entities attempt to steer the fine line between minimum rates and utility solvency and the utility's ability to attract investment.

In this connection, the UTC on July 29 will be considering this issue with respect to Puget Power's investment in the terminated Pebble Springs project.

QUESTION

-How should investor owned utility dry hole costs be handled?

Representative Nelson has made two suggestions:

a. At the next meeting the committee should elect a chairman.

b. Proposed agenda for the next three meetings:

-July 29 and August 19: Hear from all interested parties on these and other issues that presenters may wish to discuss.

-September Committee Weekend (exact meeting time to be determined): Select issues to be covered and determine work plan. The number of issues should be influenced by how many meetings members consider appropriate.

CC Dennis Karras
John Conniff
Bill Perry
Harry Reinert
Ted Hunter
Curt Eschels

## III. REGIONALIZATION: A RATIONAL POLICY OF SHARED COSTS

### Background

In the late 1960's and early 1970's, the Northwest public and private utilities, working with the Bonneville Power Administration, planned a variety of energy-producing resources to meet what was then felt to be the future regional power needs. The general outline of the projected needs and resources to meet them are to be found in the Hydro-Thermal plan which was prepared and revised during this period. Pursuant to this plan, a number of resources were completed and are still operating, such as the Trojan Nuclear Plant, the Hanford Reactor, and the Centralia, Jim Bridger and Boardman Coal-Fired Facilities. Other projects, such as Colstrip 3 and 4 and WNP 1, 2 and 3, are currently under construction and in many cases near completion.

In addition, a number of projects were planned that have subsequently been terminated or are currently in an uncertain status. These projects include WNP 4 and 5, Pebble Springs, Skagit/Hanford, annd potentially the proposed coal-fired facility at Creston. Under the current draft plan of the Regional Power planning Council, only Creston might be included as a necessary facility by the Power Council under their high-growth forecast.

The plans for these projects were made on the basis of energy demand forecasts which were available between eight and 14 years ago. During the intervening years a number of intervening factors, such as extremely high interest and financing costs, construction delays, unusually high rates of inflation, national and regional energy conservation programs, and consumer response to escalating electricity prices have greatly reduced demand in comparison to historic and then-projected growth rates. Current projections generally show modest rates of electricity growth for the region over the next 10-15 years.

This region has never faced a comparable situation in the past, where large and expensive projects were undertaken based on the then-perceived needs of the region and not completed. The region has previously benefitted from the development of hydro-electric projects by private and public entities, as well as the federal government. These resources have been worked into one of the least expensive and most effective regional energy networks in the country. The issue now facing the region is should we develop a policy which also cushions the impact from discontinued projects since the region has benefitted from past regional energy development projects and would have benefitted from these projects had the events described above not occurred.

Looking at Plants 4 and 5 in particular, it should be noted that the Bonneville Power Administration and the Washington Public Power Supply System jointly pursued an aggressive program to convince the region's public utility districts, municipalities and co-ops that Plants 4 and 5 were an essential action to the region's energy future. For those unfamiliar with the history of public power and the Bonneville Power Administration, it should also be pointed out that Bonneville Power Administration, at that time, and still in many cases today supplied the bulk of the power and transmission

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to all but a few of the very largest public utilities. Therefore, when Bonneville, along with the Supply System, urged the need for new, large thermal projects, the public utilities, municipalities and co-ops were prepared to believe that these projects were of great importance to the region and they were to be at least the initial vehicle for funding and development of these projects. At approximately this same time, the Bonneville Power Administration was issuing a "notice of insufficiency" to the public utilities and co-ops, indicating to them that power might not be available in the future to meet their projected needs. One final historical note: The participants in Plants 4 and 5 signed short-term sales agreements with the direct service industries of the Northwest which assigned to them the energy output at projects costs of these plants for a period of years. In summary, while some public utilities may have pushed Plants 4 and 5 for their own reasons, most of the participants wre persuaded to sign up for these plants with the understanding that the costs would be those approximating the Trojan plant ($400-$500 million per plant) and that these plants were essential to the future of the Northwest.

## Current Situation

The Northwest is faced with the probability of an eminent default of the debt obligations of Plants 4 and 5. The public utility districts and municipalities in other states are currently under court or administrative order not to pay their obligations. This amounts to approximately 11% of the debt obligation on Plants 4 and 5. There is serious question as to how many of the cooperatives in the Northwest will be able to pay their debt service obligations on Plants 4 and 5. One cooperative has already filed for bankruptcy reorganization under Chapter 11. Their obligation totals approximately another 21% of the total debt. In addition, there is complex litigation surrounding the obligations of all participants, including the Washington public utility districts and municipalities. The sunk costs by private utilities in Pebble Springs, Skagit/Hanford, Creston, and Plant 5 are substantial and could have a significant and detrimental impact on the financial health of the region's private utilities. In addition, a failure to resolve the finacial problems in Plants 4 and 5 could jeopardize the funding which is immediately necessary to continue the construction of WNP 3. This could have major impacts on both the public and private utilities in Washington and Oregon. In short, the region currently faces large direct and indirect costs and is incurring substantial risks as a consequence of our inability to resolve issues surrounding the cost of WNP 4 and 5, Skagit/Hanford, and Pebble Springs. Quick resolution of these problems is urgently needed.

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If other alternatives fail, the region needs an approach whereby all parties would benefit in comparison to their present costs and risks. A regional approach, involving both participants an nonparticipants in these projects, would be based upon the following factors:

1. An assessment of costs and risks of each party.
2. Establishment of criteria for an equitable allocation of such project costs.
3. Definition of a means for determining an allocation of project costs according to the criteria.

## Discussion of Costs and Risks

Our current situation has exacted and will exact a large toll in costs and risks from a variety of parties. Virtually all of the region's public and private utilities, and consequently their ratepayers, are feeling the impacts of the current turmoil and financial difficulties described above. All of the utilities in the region and their ratepayers are already at risk, to one degree or another, and all are likely to incur still greater direct and indirect future costs of this situation is not addressed now. Some of these costs and risks can be quantified, while others (such as the general impact on the region's economy, the future financing of hydro-electric, conservation and thermal resources, and even potential impacts on the national economy and municipal bond market) are far more difficult to estimate or quantify, but are nonetheless real. While these impacts cannot be quantified, they will be substantial and have the potential to be far in excess of the direct sunk costs involved in the plants described above. Among the most obvious are th uncertainty of payment, damage to the credit standing of the participating utilities and other utilities from the Northwest, failure to repay WNP 4 and 5 loans outstanding to both participants and nonparticipants, higher borrowing costs to complete WNP 2 and 3, a delay in WNP 3 that could add $300-$500 million in costs to that plant, and the higher financing costs and potential difficulty in financing projects, not only of the participants, but of other municipalities, local governments and perhaps even the states of Washington, Oregon and Idaho. In addition to these direct impacts, there will be the very real impact, both in dollars an inability to work cooperatively to solve future problems which will arise from the growing number of lawsuits. Without an immediate solution, the number of lawsuits will not diminish, but will multiply.

In pursuing a policy of regionalizing all or a portion of the costs of these plants, a determination woould be made for each governmental entity of the estimated impact, direct and indirect, coupled with some assessment of the probability that it would occur. For example, an extremely high-cost event, such as the loss of WNP 1 and 3, would be a serious concern for all parties, even though its probability might be small. An example of a lesser impact but higher probability would be the failure of WNP 4 and 5 to repay the approximately $68 million owing to public, private and direct-service customers within the region. In the event of default there is little likelihood that these loans would be repaid, at least in the near future, but the dollar amount is obviously much lower than the impacts, for example, on Plant 3.

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## Suggested Criteria for an Equitable Allocation

In taking a regional approach to solving this problem, the following criteria could be followed to produce a fair, equitable and responsible allocation:

1. The participants in each of these projects should bear a larger cost than nonparticipants.
2. The cost to each party should be reduced below the current potential direct and indirect costs.
3. The costs should be shared by participants, nonparticipants and direct-service customers of BPA.

4. Appropriate adjustments to assign costs should be made to reflect the different degree of current financial risks of nonparticipants.

5. Where possible, offsetting benefits, such as priority access to sale of surplus power, should be provided to nonparticipant utilities and customers.

## Implementation

A regionalization of all or a portion of these costs would be through some arrangement with the Bonneville Power Administration, but there would be no direct federal treasury participation. The arrangements could either take the form of each participant paying a portion of their debt and a portion would be paid for through a regional organization, or in the alternative the entire debt could be reallocated and paid through a regional organization such as BPA.

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## Constraints

The following problems would have to be overcome in order to implement a regionalization policy:

1. The nonparticipants in these projects would first have to conclude that in fact they already face significant direct and indirect costs and risks which would be greater than whatever the direct cost of their participation in a regionalization plan.
2. Some method for regionalizing these costs, either through the Regional Power Planning Council or congressional legislation, would probably be required.
3. The current adversarial and in many cases hostile relationships between the various public and private utilities and the direct-service customers of Bonneville would have to be replaced by a willingness to cooperate to devise a responsible and equitable solution.
4. A policy of regionalization would result in financial stability and a spreading of the costs over the entire region. As indicated by the rate analysis, this would not have a substantial impact on any one entity. However, this plan does not achieve any debt reduction from the region's point of view.

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## IV: DEBT REDUCTION PLAN

Objective

The objective of the Debt Reduction Plan is to provide an overall solution to the Projects 4-5 problem while preserving local control of public power and benefitting all parties involved.

Payment of Projects 4-5 Debt Service

Projects 4-5 Reserve Accounts. WPPSS invests $110,000,000 in bond and contingency reserves at an 11.2% yield in long-term U.S. government bonds or in higher yield investments permitted by the Project 4-5 Bond Resolution. A 5% yield is assumed for the period of time after the 2006 call date of the U.S. government bonds until the final maturity of Project 4-5 bonds (7/1/2018). Investment income from the reserves is to be applied to debt service on the 4-5 bonds.

Cost-Sharing. WPPSS settles cost-sharing litigation for $400,000,000. The amount of the settlement is paid to Projects 4 and 5 as follows: $278,540,000 with interest at 13.5% payable in semiannual installments from July 1, 1983 to January 1, 2006; $121,460,000 with interest deferred and compounded semiannually at 13.5% until July 1, 1990, and payable in annual installments of interest, deferred interest, and principal commencing July 1, 1990 and ending July 1, 2018. Principal and interest installments are to be applied to debt service on the 4-5 bonds.

Investment in Projects 2-3 Bonds. Some or all 4-5 Participants form a non-profit corporation (NPC), to invest in WPPSS Projects 2-3 bonds. NPC purchases $1,048,365,000 of WPPSS Projects 2-3 bonds bearing interest at 13.5% and maturing in the years 1990-2018. The bonds are not subject to redemption prior to maturity. The bonds are purchased by NPC less a discount of 2.5%, which is used to provide working capital and to pay expenses; surplus is refunded to Participants. Principal and interest income from the 2-3 bonds is to be applied to debt service on the 4-5 bonds.

The function of the NPC is to:

1) Collect funds from various sources for purchase of Project 2-3 bonds,

2) Purchase and hold WPPSS Projects 2 - 3 bonds, and

3) Assume payments for debt service by 4-5 Participants, and apply principal and interest income from Projects 2-3 bonds to meet such payments.

The sources of funding for NPC are as follows:

| | | |
|---|---|---|
| 1) | Washington municipals | $ 681,005,000 |
| 2) | Oregon and Idaho municipals | 98,840,000 |
| 3) | Cooperatives | 268,520,000 |
| | Total funding required by NPC for purchase of 2-3 bonds, working capital, expenses | $1,048,365,000 |

Financial Results. The combination of the reserve account income, cost-sharing payments and Projects 2-3 bond investment income pay off the debt service on Projects 4-5 bonds over 35 years.

## Methods of Funding Projects 2-3 Investment

Washington Municipal Participants. The sources of funding for Washington municipal participants are loans to individual participants by a Washington Municipal Refinancing Authority (WMRA), to be created by state legislation. The source of funding for the WMRA is a bond issue of $681,005,000 with interest at ten percent over twelve years. Loans from the WMRA to Washington municipal 4-5 Participants would be evidenced by individual utility bond issues and would bear interest at the same rate and be repayable over the same term as the WMRA bond issue. Debt service agreements on the individual utility bonds would provide all necessary money for WMRA to pay debt service on its bonds. The WMRA would have extraordinary means to be specified in legislation to ensure that the individual utility bonds it holds are repaid by the utilities. The bonds issued by the WMRA would not be backed by state revenues or credit.

Because Projects 4-5 debt service would be provided for under the debt reduction plan, the utilities net obligation would only be debt service on their new 12-year revenue bonds held by the WMRA.

Cooperatives. The sources of funding for cooperatives are REA/CFC loans to individual cooperatives at 5% interest, with repayment over twelve years.

Because Projects 4-5 debt service would be provided for under the debt reduction plan, the utilities net obligation would only be debt service on their new 12-year REA loans.

## Financing of Projects 2 and 3

The investment of funds in Projects 2-3 bonds is a key element in the debt restructuring and accomplishes the following:

1) Keeps the investment of funds to pay Projects 4-5 debt service in the Northwest, where it will have considerable beneficial effects on the local economy,

2) Provides financing to complete Projects 2 and 3 on a timely, cost-effective basis while avoiding the negative short-term impacts on BPA rates of financing Project 2 from current revenues, and

3) Provides a high-yielding investment which, because of its tax-exempt nature, avoids IRS arbitrage restrictions which would otherwise significantly reduce the savings to ratepayers.

FINAL DRAFT

Financial Results

| | ($000's) | | |
|---|---|---|---|
| | Washington Municipals | Oregon & Idaho Municipals | Cooperatives |
| Current 4-5 Obligations | $4,635,174 | $672,764 | $1,455,572 |
| Payments Under Debt Reduction | 1,250,180 | 181,449 | 393,214 |
| Net Savings | $3,384,994 | $491,315 | $1,062,358 |

FINAL DRAFT

## Evaluation of the Debt Reduction Plan

| Pros | Cons |
|---|---|
| The Debt Reduction Plan is the only alternative which contains the elements of an overall solution and benefits all parties | State Legislation is required, as is action by WPPSS, BPA and REA |
| 4-5 Participants receive a savings of over 70%; net payments in years 1983-1985 are only 50% of the current 4-5 obligation in those years. | The Oregon and Idaho utilities may have problems participating under recent court decisions; their funding is uncertain |
| No payments related to Projects 4-5 are required after 1995 | |
| A regional solution is created while preserving local control of public power | |
| Litigation and uncertainty are ended | |
| Access to the capital markets for utilities is restored; other state municipal entities can borrow at normal interest rates | |
| Projects 2 and 3 are financed and can be completed on a timely, cost-effective basis, resulting in lower BPA rates | |

FINAL, DRAFT

## V. PRELIMINARY REVENUE REQUIREMENT ANALYSIS OF FOUR WNP 4-5 SCENARIOS

The following DRAFT tables provide preliminary information concerning the four scenarios described in the previous pages. These tables show preliminary estimates of the revenue requirements under each of the scenarios. These represent the efforts of the Analytical Team of the WNP 4-5 Resolution Project to present the first set of information for these scenarios. The DRAFT table should not be used for policy or planning purposes, as the results will undoubedly change as the scenarios are further refined.

The following pages present the analysis in four different groupings: (1) Washington PUDs and municipal utilities, (2) Oreagon and Idaho municipal utilities, (3) all cooperative utilities and (4) the aggregate of all 88 WNP 4-5 Participants.

FINAL DRAFT

In analyzing these scenarios, we have attempted to take into account direct and indirect effects on individual utility operations. Additionally, we have used a "price elasticity effect" to take into account the effects on electrical demand resulting from price changes.

Two important items must be stressed. The first, of course, is the preliminary nature of the data. Many assumptions regarding the future had to be made for each of the scenarios. These are by definition uncertain, and therefore any data resulting from this analysis should be treated carefully. Second, the results are presented in terms of revenue requirements in mills per kilowatt hour. This, of course, does not mean rates. Since each individual utility has its own rate structure and disburesment of costs across various customer classes (i.e., residential, commercial, industrial), the retail rate impacts of any of these scenarios would vary greatly from utility-to-utility.

Department of Energy
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

OFFICE OF THE ADMINISTRATOR

In reply refer to: ALP

JUN 6 1983

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| (Ret.) | | |
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JUN 9 1983

To All BPA Customers:

BPA, with the cooperation of the Washington Public Power Supply System, recently completed an analysis of alternatives relating to the nuclear plants under construction by the Supply System. A summary of the analysis and its findings is enclosed.

The analysis indicates that financing for completing construction of Supply System nuclear plant number 3 (WNP-3) near Satsop, Washington, is not available at this time through conventional means, from outside sources, or through BPA rates. Under the circumstances, the study indicates that the next best alternative for the region is to delay construction of WNP-3.

Based on these findings, we advised the Supply System that BPA cannot continue to cover ongoing costs of WNP-3 construction. We advised the Supply System that our study showed a prudent course of action would be to delay construction of WNP-3 and maintain it in a preservation state for 3 years.

At the same time, we reiterated BPA's commitment to completion of WNP-2 on its current schedule. That plant is now 98 percent complete, and is scheduled to produce power early next year.

Delay of WNP-3 will mean somewhat lower power costs for Northwest ratepayers in the 1980s, but somewhat higher rates after that. Over the long term, total costs to ratepayers should be about the same with or without a project delay.

The situation of the Supply System is of vital interest to all of us in the region's utility industry. We therefore felt it important to share with you the basis of our advice to the Supply System. If you have any questions, please call your Area or District Manager.

Sincerely,

Peter T. Johnson

Administrator

Enclosure

## INTRODUCTION

On May 10, 1983, the Bonneville Power Administration (BPA) asked the Washington Public Power Supply System (Supply System) to assist BPA in evaluating a number of issues associated with continued financing of Supply System Projects WNP-2 and WNP-3 on current construction schedules. The evaluation has taken the form of a series of analyses contained in the document entitled "Analysis of Resource Alternatives," dated May 26, 1983.

Our letter to the Supply System focused on four broad areas of inquiry: (1) an evaluation of the prospects of overcoming existing impediments to conventional municipal bond financing of the projects; (2) the effect of the Supply System's inability to meet its WNP-4 and -5 obligations on continued construction of the net-billed projects; (3) an analysis of the resource economics associated with alternative courses of action relative to WNP-3; and (4) an evaluation of alternative actions related to WNP-3 and their effect on the Supply System and the region's economy and its institutions.

The Analysis of Resource Alternatives document provides a detailed review of the various issues structured within these four broad categories. This paper summarizes these analyses and contains BPA's conclusions.

Of the five nuclear power projects under construction by the Supply System, WNP-1, -2, and 70 percent of -3 are backed by BPA under long-term contracts called "net-billing agreements" signed a decade ago. The other nuclear projects, WNP-4 and -5, were not backed by BPA. The latter projects are terminated, and the Supply System faces a number of serious legal challenges arising out of this circumstance. These legal challenges now also pose serious problems for ongoing conventional financing of the three remaining projects backed by BPA. WNP-1, near Richland, Washington, is 60 percent complete. It was placed in a preservation state last year by the Supply System for fiscal and other reasons. WNP-2, also near Richland, is 98 percent complete and is scheduled to begin producing power for the Northwest early next year. WNP-3, the central focus of the analysis, was 74 percent complete on April 30, 1983.

The Supply System's ability to ensure continued conventional financing of the remaining three projects faces serious impediments resulting from the legal controversies surrounding terminated projects 4 and 5. The analysis addresses the complex difficulties and their cumulative effect on continuation of the net-billed projects.

As a result of its analysis, BPA is advising the Supply System that financing for completion of construction of WNP-3 at this time is neither available nor prudent through conventional means, from outside sources, or through BPA rates. The analysis further shows that the utilities within the region have access to an adequate power supply so that a 3-year delay in construction of WNP-3 will not seriously jeopardize the availability of an adequate economical power supply for the benefit of the region's ratepayers.

Funds on hand, together with resources from BPA and others, are currently adequate to cover those costs associated with an orderly transition of WNP-3 to a preservation state. For these reasons, BPA believes that the prudent course of action by the Supply System is to delay ongoing construction of WNP-3 and to effect transition of that project to a preservation state as soon as possible.

## SUMMARY

### I. Prospects for Financing

In January, BPA and the Supply System were advised by their financial advisors that three circumstances barred conventional financing. Of those three, only the potential application of Initiative 394 to the net-billed projects has been put to rest. The other two--the need for legislation insuring project integrity in the event of a Supply System bankruptcy and the challenge to the validity of the net-billed contracts--remain. The underwriters, a group headed by four of the largest investment banking firms in the nation, have advised that they cannot undertake to market bonds until these two remaining bars are removed.

Bankruptcy legislation has been considered by the Washington State Legislature and has been discussed by key members of Congress. The Washington Legislature is not expected to enact such legislation in its current session. The likelihood of Federal congressional action cannot be estimated with confidence.

While a favorable opinion has been rendered by the U.S. District Court on the question of net-billed contract validity, an appeal is expected before July 15, 1983. A final resolution of this issue through judicial, legislative, or contractual means is required to issue bonds and such solution is not imminent.

Even if these impediments should be removed, recently lowered bond ratings, complex litigation, and the prospect of a default under the WNP-4 and -5 bond resolution and other considerations would make financing expensive and questionable. Should a default occur, the underwriters are unable to estimate the interest penalty that may have to be paid. This penalty would burden BPA ratepayers and could threaten project economics.

In looking to other means of acquiring construction funds for WNP-3 in particular, BPA and the Supply System have investigated financing through banks and the other project owners. Other financial institutions, to date, have been concerned with the same impediments which block conventional bond financing. The investigations with other owners have not ripened to the point where BPA or the utilities can be assured of the legalilty or success of such ventures. While efforts will continue along these lines, no reasonable likelihood of success is evident in the near term. Therefore, the only assured source of construction funds we can count on would be funding construction from BPA rates.

### II. BPA Rates

BPA rates have risen rapidly in recent years and substantial additional upward pressure at this time could have serious adverse consequences.

Since December 1979, BPA rates for preference customers have risen from 3.5 mills/kWh to 18.0 mills/kWh (22.8 currently proposed for the next rate period, November 1983 to July 1985). In the same period, rates for industrial customers have risen from 2.0 mills/kWh to 24.5 mills/kWh (25.7 is currently proposed for the next rate period). [redacted] as well as customer and consumer resistance to further increases.

It is particularly inopportune to increase upward pressure on rates at this time since such an event could undermine the beginnings of the recovery of the region's industry and commerce from a long and deep recession.

Within the context of BPA's current rate proposal, it is possible to finance WNP-2 out of revenues and have sufficient funds to maintain WNP-3 in a preservation state provided action on WNP-3 is begun by June 1, 1983. Conversely, financing any Supply System project from revenues rather than through borrowing will increase the immediate impact upon BPA's financial situation if there is any deviation in project costs because the total amounts (rather than debt service only) will impact BPA in the near term. This, combined with BPA's high ratio of fixed-to-variable costs, would result in a significant increase in BPA financial risk.

Financing full construction for both WNP-2 and -3 from revenues would result in major additional upward pressure on rates, on the order of a 20 percent additional increase in the priority firm rate, and would greatly increase BPA financial risk. This alternative is, therefore, imprudent.

## III. Evaluation of Resource Economics Including Alternatives

Resource economic analyses have been performed to examine the economic impacts of a variety of alternative actions, including extension of the construction schedule of WNP-3 and different financing arrangements. In each case, these analyses have examined not only the capital and operating costs of WNP-3 and the potential changes that might occur, but also the operation of the entire regional power system including surplus power marketing, resource displacement, the probability of curtailment in any given year, and other such operational issues. The System Analysis Model (SAM) developed and used by the Regional Council to develop its Plan was used for these analyses. SAM simulates the operation of the regional power system over a 20-year planning horizon. To provide a consistent basis for comparing alternatives, system costs were discounted back to present value. In addition, sensitivity analyses were performed on such variables as forecasted load growth and bond interest rate.

The analyses showed, on a net present value basis, that a construction extension of 3 years for WNP-3 would not significantly increase total present value of system costs. Delays beyond 5 years would increase costs. If resource economics were the only consideration, a construction extension would not be appropriate because the present value of system costs for the current schedule, assuming prudent financing at relatively low interest rates, is approximately equivalent to system costs under a 3-year construction extension case.

The conclusions of the resource economic analysis were tested against various load growth cases utilizing a BPA high- and low-load forecast. These analyses showed that under a 3-year construction extension case, there is sufficient flexibility available to compensate for high load growth. However, lengthy delays substantially increase the potential costs that would be incurred if high load growth occurred. The flexibility to accommodate high load growth without extreme adverse consequences is provided in part by the investment now being made in developing conservation program delivery capability. The development of this capability is a premise both of BPA's conservation programs and the Regional Council's Final Plan.

The resource economic analyses have also been reviewed in light of load forecast information currently being developed at BPA but not yet finalized. BPA's most recent studies indicate some near-term changes in loads of DSIs, public agencies, Federal agencies, and system losses. Preliminary long-term load forecast revision efforts are also underway. On balance, these future forecast updates are expected to yield a forecast somewhat lower than those used in this analysis. This would reinforce the conclusion that the load/resource situation permits a construction extension of WNP-3.

The economic analysis assumed surplus marketing at prices somewhat above those attained to date but which are considered reasonable in view of current power sales negotiations. A principal impact of a 3-year delay in WNP-3 would be to reduce near-term surpluses and to move the project's availability into a time period more nearly matching regional needs. Surplus revenues would be foregone during the delay but comparable output would be available later.

For alternatives in which WNP-3 is delayed, socio-economic impacts occur in the near term. However, employment and income levels increase in later years as construction picks up.

All resource economic analyses are predicated upon completion and operation of WNP-2 on its current schedule. Maintaining WNP-2 on schedule, with timely completion and operation, is of overriding importance to BPA and the Supply System.

## IV. BPA Financial Condition

Our mid-year review of BPA's financial circumstances has revealed a further reduction in this Agency's financial flexibility. BPA's net revenue shortfall in FY-83, which is currently estimated to preclude paying to the U.S. Treasury any of the previously planned amortization of the Federal System ($7.5 million) and past years' deferral ($152 million), will result in an additional deferral of interest due ($22.4 million). Legislative directives require BPA to set rates to recoup such deferrals along with all other BPA costs. Due to continued revenue shortfalls, BPA's accumulated net revenues have declined from $379 million at the end of FY 1976 to a projected low of $15 million at the end of FY 1983.

Furthermore, as a result of the increasing capital investment in the Federal System and the Supply System projects, BPA financial flexibility has become more restricted. Whereas BPA's fixed costs consumed 76 percent of revenues in FY 1981, these costs are expected to consume 87 percent of revenues in FY 1983.

Given these circumstances, BPA must husband its fiscal resources and critically review any increase in financial exposure. BPA's only choice is to reduce financial risk and not further encumber the revenue-generating capability of the Federal System in the current circumstances.

## CONCLUSIONS

These analyses lead to the finding that conventional financing cannot be achieved due to current impediments. Even if these impediments were overcome, it would be difficult to achieve prudent financing at reasonable interest rates given other current circumstances. Financing alternatives are currently either unavailable or not prudent. Therefore, BPA would approve an action by the Executive Board to effect, as soon as possible, transition of WNP-3 to a preservation state for 3 years, in order to ensure there are sufficient monies available for efficient and proper preservation.

BPA and the Supply System have an obligation to protect the region's investment in the net-billed projects which are all needed to meet expected future regional loads. The timely completion of WNP-3, its efficient and economic preservation, and its eventual restart are of overriding importance to BPA and the Supply System. BPA plans to finance WNP-2 to completion from revenues and is also financially prepared to protect the investment in WNP-3 and WNP-1 until construction can be restarted. This course should prove fiscally sound and prudent while assuring that these important resources can be constructed on a time table appropriate for anticipated future regional power needs.

The **Chairman**. Thank you very much, gentlemen, for your testimony. As varied as it has been, it's very helpful to us.

I think it's obvious from where we are on this legislation, both in this committee, and on the floor, that we're going to have some time regardless of anybody's individual desires. Time will be there.

I appreciate your candor, and primarily your willingness to work, as illustrated in the statement that you wish to work to a solution. I want to state for the record I have no doubt of the good faith of anybody that is involved in these matters. I am also aware of the tremendous amount of time that you, Mr. Greening, and people from your organization, spent with our staff, trying to work out the legislation and the report language that accompanied it in the Appropriations Committee. We're appreciative of the contributions you made, and I think you recognize the accommodations that were made in that process, regarding your requests.

Mr. **Greening**. Yes, Senator, I do.

The **Chairman**. And I hope in the time that does intervene between now and the time that we're able to go forward with this legislation—because everyone knows we're scheduled to recess at the end of this week, not to reconvene until September 12—that a host of these questions will be answered. I think it would be fair to say, too, that with that many lawyers involved you won't have all the answers, you'll just have more questions.

Mr. **Boldt**. And I agree with that.

The **Chairman**. This should not become the lawyer's get rich act of 1983, and yet there have been estimates made, and I don't think that they're entirely wild speculation, that over the next several years we could see up to $100 billion being paid in attorneys fees in the various pieces of litigation that are involved.

Mr. **Boldt**. Senator, we can account for about $600,000 a month in our immediate utility systems.

The **Chairman**. And that's a tragedy. If we can find a way to reduce that likelihood—and I say if, and that's a small word, but it has a tremendous implication in this instance—if we can find a way to minimize the amount of that litigation, and the time that we'll spend to get some resolution, we'll be well off, or at least not as badly off as if we fail in that effort.

It will require an awful lot of work from every one of us to develop that consensus, and there is no perfect solution in this matter. If we wait until we find a perfect solution we'll still be here at the second coming.

Mr. **Greening**. I want to clarify one thing, and that is we are trying to achieve the consensus because of the substantial involvement of lawyers and lawsuits, and the differing interests among our utilities, the likelihood of unanimous, or anywhere near unanimous, agreement on anything is zero. And so, we do not expect the information that we'll be gathering over the next month, especially the modeling that Bonneville is doing, will give us the answer, and everyone—it will become crystal clear to everyone. We simply believe that this information will provide us some tools by which we can exercise our judgment, and hopefully reach a consensus.

The **Chairman**. Well, you have, and I'm sure in good faith, offered to work with us, and I'll make the same offer to you. We don't have different objectives, I don't believe.

Mr. GREENING. No.

The CHAIRMAN. And Mr. Boldt, you've raised some thoughtful questions in your testimony. We'll attempt to clarify them, and I can understand the sensitivity that you feel with respect to dealing with the pressures that you and your membership have experienced as the rate impact upon the consumers of the Northwest has been felt, and they have reacted; it is quite proper that they should react, and quite understandable that they would. Therefore, you would like some assurances that although some of us are one step removed from that process, we intend to dot the i's, and cross the t's so far as possible. I don't quarrel with that objective at all.

Senator Gorton?

Senator GORTON. Mr. Chairman, thank you. I certainly welcome my two friends here, Mr. Greening, and Mr. Boldt, and I'm happy to have this opportunity to meet and to hear from Mr. Westlind.

I want to joint the Chairman in expressing my appreciation, and not only for your testimony here today, but for all of the help and interaction which you've had in the past, and we'll have in the future.

I think I wish to make it clear to you that both Senator McClure and I went through the exercise which took place on the floor of the Senate today. Largely, in order to keep alive an option over roughly the 6-week period of time, which Mr. Greening testified was necessary to get answers to at least some of these questions. There's isn't going to be a vote on this proposal on its merits, or we leave this place to have a recess of almost a 6-week period.

Nevertheless, if during the course of that period of time we can reach a consensus in the Pacific Northwest, about an appropriate direction to take, to begin at least to solve the terribly difficult, almost intractable problems, which we face. We want to have that opportunity. That's what we gained for ourselves today. If we can't reach that consensus in that period of time, we can't go ahead with something here. We, in Congress, reflect our regions. We hope often to be able to help them solve problems which they have, but we are not here to impose solutions on unwilling constituents, whether individually, or corporate in nature.

And so we have cut out a lot of work for ourselves due in the next 6 weeks, but of course, we've assigned an awful lot of work to each of you at that same time.

I do have a couple of questions, if I may. And the first one is very simple, and very procedural, and that is, Jim, are all of your members a part of the Public Power Council?

Mr. BOLDT. No.

Mr. GREENING. Yes, some of them haven't paid up yet. But technically they're subscribers.

Senator GORTON. OK. And my question simply was that, that the Public Power Council represents the PUD's that are a part of Mr. Boldt's organization together with other public power entities, not just in Washington, but in the balance of the Pacific Northwest. Is that correct?

Mr. GREENING. Idaho, Oregon, western Montana, parts of Wyoming, Nevada, California, and Utah.

Senator GORTON. Fine. That is a preliminary to my next question, which also is prefaced on the proposition that I just made, that we can't, and we should not impose from Congress a solution on an unwilling region. We need, if we are to reach any solution, your approval, and your support exactly as we need it from the investor-owned utilities, from the BPA itself, and generally speaking, from the public in the Pacific Northwest.

Would you, Mr. Greening, on behalf of your constituents, feel better with one of the—one of the most important of all of the problems or questions which you have involved in this, be solved if the Bonneville Power Administration, through some method or another, could not implement this legislation without the consent of the Public Power Council, or of some organization broadly representative of public power interests in the State.

So that if you would be required to be a vital and pivotal player in answering a number of questions, only a few could be answered in the legislation. Many of them have to be answered after the legislation passed. We don't know what arrangements we could make to borrow money, on what terms, for how long a period of time, until we have something which can borrow. We can't make that decision in advance. We probably can come up with answers to some of these other questions.

But we're back—would you feel more comfortable with legislation, that somehow or another that participation was assured?

Mr. GREENING. I think so. It's difficult to assess the feelings of 115 different people, and believe me, although there aren't 115 different opinions, there are a lot of different opinions, and I feel certain that there are going to be some who will oppose any legislation no matter what. We start with that as a given, and others who already support some legislation to protect the net-billed plants.

I think that many of the members of the Public Power Council, the consumer-owned utilities who buy from Bonneville, would be more comfortable knowing they had some ability to influence the process so that their repairs are protected. What form that might take, I don't know. It might be limited by the legislative process. I don't know what you can do in legislation, for example, to give that kind of participation.

Senator GORTON. I'm not speaking of a specific amendment, or anything of the sort. I'm asking a general philosophic question. Going to what seems to me from listening to you reading your testimony, is central to your concerns.

Mr. GREENING. Well, let me start with—let me say, first of all, that the consumer-owned utilities, the preference customers of Bonneville, have a great deal of faith in administrator Peter Johnson. We strongly support his efforts to make Bonneville a physically strong, and well-managed organization. And I feel that many people might be willing to delegate to him the authority to make that crucial decision, something they may not be willing to do to other administrators, quite frankly. And because of this feeling, I think that it would be helpful if they were assured of some part in the process of deciding what is in the best interest of Bonneville and its customers in this matter.

Senator GORTON. One other question. Obviously——

The CHAIRMAN. Will the Senator yield on that point?

Senator GORTON. Certainly.

The CHAIRMAN. Because I think that's a good point to make this interjection.

As Senator Gorton has outlined, some of these things we simply can't button down in advance because we don't know what the negotiations would produce, if Bonneville has this authority.

I think I can assure you that Senator Hatfield, as Chairman of the Appropriations Committee; Senator Jackson as a very influential member of this Committee; Senator Gorton with the interest that he has; Senator Baucus with the interest that he has expressed; and certainly on behalf of myself, we're going to look very carefully at what those negotiations produce. And I think we have perhaps enough collective leverage if one of us individually did not have that, to call a halt to the process if it starts running awry. And in that kind of continued scrutiny of what they do, we'd seek your advice. And we certainly will get it whether we sought it or not.

Senator GORTON. I'll go along with you on that, Mr. Chairman. I want to set up something where these people can make their own decisions, and I can think of something else.

The CHAIRMAN. Senator Gorton, your point is well taken, because, in fact, when we met about a week and a half go in Portland, somebody looked at the legislative history and said, "Well, Bonneville is going to agree with the project owners. That's a supply system. And the investor-owned utilities—where do we fit into this process? We're going to have to pay the bill."

So your point is well taken, and I'm sure that would reassure some people to know that they would have some part in that process.

Mr. BOLDT. There are legally termed groups in the—and the terms come out of the contract. There are owners groups; there are participating review boards that are representative of the public agencies. Off the top of my mind I do not recall a makeup, and how they get there. I know they're there. There is some way that we could put some check balance, and to echo what Chip has said, that's a strong concern. Bonneville, and the owners, decide they're going to go spend our money this way. And I think it would go a long way to alleviating some of the problems.

Senator GORTON. I wanted you to answer that question as well.

For example, one of the elements that you've already spoken to, Mr. Greening, is obvious. You had to prepare this testimony, at least a little bit of time to go to get it to us, and since then the GAO has come out, and as to a very significant degree, solved the first of the considerations you have here. It's like we can get two done. Presumably that could still be challenged in court.

The CHAIRMAN. And there remains a question of whether that's optimum from your standpoint—doing it out of system resource revenues, or whether it's optimally done by additional indebtedness.

Mr. GREENING. Well, actually, Senator, on the question of two, I don't think we have any argument with doing it out of rates because in the time Bonneville has to pay the supply system $20 million by the end of August, we haven't got time to figure out a way to borrow the money before then.

The Chairman. And certainly those payments are contemplated, but there will be some additional payments as well.

Mr. Greening. Yes.

Senator Gorton. Well, I think, Mr. Chairman, that—I've asked that in answer to the key question which I have here; I'm staggered, although I've heard the figure referred to in different ways before about Mr. Boldt's statement that his members are paying out $600,000 a month in attorneys fees for this, and that only scratches the surface of all of the attorneys fees that are being paid. None of those fees are producing a single kilowatt of electric power. All of them are somehow or another going to be paid by our constituents, and our citizens. And we want to help you come up with an answer which is clear enough, and decisive enough, so that we at least stretch that flow of money, and let you get back to the business of providing power for your constituents, and for your customers.

Mr. Boldt. Do private attorneys participate in the State unemployment compensation program? Governor Spellman may not like that statement.

Senator Gorton. Thank you, Mr. Chairman.

The Chairman. Thank you, Senator Gorton. I'll not attempt to answer all the questions which have been raised in the statements on the record today, but we will be consulting with you to try to reduce the areas of uncertainty. But just as an example, I might point to Mr. Boldt, to his question that you have on page 3 of your statement, with respect to the definition of the Federal-based system resource?

I hope all the rest of the questions are as easily answered as that one. I would refer you to the line 10 on page 1 of the bill. The Federal-based resources is defined in section 83910B of Title of the Pacific Northwest Electric Power Planning and Conservation Act; and section 83910B defines those resources as those acquired by the Administrator under long-term contracts and force on the effective date of this Act, and that is the net-billing contract period.

Mr. Greening. Senator McClure, I know how meticulous you are, and just for amusement sake I want to point out that that section of the regional act refers only to the subsection B of the definition of Federal-based systems resources. Federal-based systems resources include the SCRPS, plus the net-bill, plus replacements A, B, and C, such subsections.

Mr. Boldt. I believe that there—if we can't get a handle on this, I sincerely believe that with regard to the quotation of replacement and other aspects of the Federal-based system, we may need a legal clarification of that in the future if we can't get some things squared away with the Bonneville Power Administration.

The Chairman. I don't think there's any ambiguity in that, and I think, Mr. Greening, in spite of that statement, the definition is correct.

Mr. Greening. Oh, no, it is correct.

The Chairman. It is precise, and that, together with the report language, does not yield ambiguity, but if there is ambiguity in the minds of anyone reading it, we certainly wish to remove that ambiguity.

Mr. Greening. I never claimed there was an ambiguity myself.

The CHAIRMAN. Thank you very much for your testimony, and your patience for waiting until this hour.

We'll next hear from Mr. Wendall Satre, chairman of the board for Washington Water Power Co.; Jim Durham, senior vice president, Portland General Electric.

Gentlemen, your entire prepared statement will be placed in the record you are at liberty to proceed in whatever manner you desire.

## STATEMENT OF WENDELL J. SATRE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, WASHINGTON WATER POWER CO., ACCOMPANIED BY JAMES DURHAM, SENIOR VICE PRESIDENT AND GENERAL COUNSEL, PORTLAND GENERAL ELECTRIC CO.

Mr. SATRE. Thank you, Mr. Chairman. I'm Wendell Satre, chairman of the board, and chief executive officer of the Washington Water Power Co.; and my colleague today, as you have observed, is Mr. James Durham, senior vice president and general counsel for Portland General Electric Co.

My statement here today is in strong support of S. 1701, and presented on behalf of my own company, as well as Pacific Power & Light Co., Portland General Electric Co., and Puget Sound Power & Light Co., all of our companies owning shares of the WNP 3 project, which is under discussion here today.

Collectively, we serve over 2 million electric customers in the area defined by Mr. Greening a few moments ago. In fact, the investor-owned utilities serving the region serve more customers than do the public agencies.

Our companies stand ready, willing, and able, as we have from the very beginning of the project, to continue to finance our 30 percent share on the schedule we agreed to with WPPSS, BPA, and the public agency participants under the various agreements relating to the project's ownership and construction. Now that project has been delayed.

In our view, the delay is avoidable, unnecessary, and unreasonable. There's been discussion here earlier today as to one way in which the project could be financed, and that is directly from revenues of the Bonneville Power Administration.

And the second way in which it could be financed is the way in which you are approaching the legislation in S. 1701, providing, or assuring that Bonneville has an authority to enter into intermediate, or short-term agreements, which would provide that financing.

We've heard here today how the Regional Power Council has included this as a resource under their planning, and the need for it in the future power supply of the region.

As far as water power only is concerned, the 1986 completion date is timely, since the most recent load forecast show our firm resources are not adequate to meet our forecasted load beginning in 1987, and continuing on through the decade.

Mr. Major has talked about the leaving of the project of key managers, and construction management team, the team which has accomplished so much in the last year, achieving a rate of construction of 2 percent a month, and meeting all of their schedules, and doing it in a way which became the industry.

Now, if the project is mothballed, all we've got to show for it are mind boggling costs of the mothball and the delay. That delay has been estimated to cost all the way from the $250 million figure estimated by Mr. Johnson, to as much as $2 billion. Our own estimate is that a 3-year delay could increase our costs of our share of the project as much as 50 percent. It's to avoid those costs, the risk of termination of the project, that brings me before you today on behalf of our companies and their electric customers.

In a larger sense, however, I can't help but believe that I'm here also on behalf of the entire region. Through lack of a cure, WPPSS threatens to become an economic plague from which the Northwest and its institutions will be decades in recovering.

Projects 4 and 5, the investors in those projects, and those project's public agency sponsors, have already fallen victim to this plague. We simply cannot let the same fate befall the net-billed project.

Our companies are not members of the Washington Public Power Supply System, and yet over the last 2 years we've done everything we could to help. You're all aware of the meeting sponsored by Governor Spellman, in which all of us were involved, along with Bonneville Power Administration. And the investor-owned utilities, and BPA, were the last to leave the bargaining session, which were set up in an attempt to avoid the default by the supply system on the bonds it had issued to finance the projects 4 and 5. Those projects are now terminated.

However, that wasn't the first time in which the investor-owned utilities had assisted the supply system and its public agency participants.

A year earlier we had advanced collectively a total of about $12 million in loans to the supply system and interim assistance to enable it to preserve the assets of 4 and 5, and avoid an immediate termination. However, the public agency participants selected to disavow in court their obligations to repay the 4 and 5 debt, and those projects were terminated by the supply system in spite of our efforts and substantial financial assistance.

We find ourselves in a similar circumstance today. We're here to support a bill that would do nothing more than help the supply system, BPA, and the public agency participants, do what they promised to do when they signed the various project 3 agreements 10 years ago.

The irony of our situation today is that some of the very parties who need the assistance of the bill could fulfill their obligations, and who created the supply system, we understand do not support the bill.

Once the bill is enacted, although there are major banks in the United States that have already indicated that if they have the assurance of the Bonneville Power Administration through a bill such as this type, that they're ready to loan money for the completion of the project 3.

A plan for at least continuing the supply system's problems starts somewhere. And if project 3 is not to become another casualty, we must start immediately.

S. 1701 is the logical starting point since it preserves existing relationships, and existing agency authority, and only purports to provide an immediate solution to an immediate problem without any party incurring obligations beyond those originally undertaken in the project 3 agreement. It is a limited stop-gap measure necessary to solve an emergency, and in no way it frustates later more global supply systems solutions such as those that might be recommended by the new reformed commission.

This bill would add nothing of substance to BPA's authority and obligation under the net-billing agreements, but would clear the way for performance by those agreements—of those agreements by BPA, despite the difficulties of the supply system.

BPA is obligated by the net-billing agreements. They were entered into with the full knowledge and consent of Congress, designed to back financing for construction of projects 1 and 2, and 70 percent of 3.

The private utility owners of 30 percent of project 3 have relied on those agreements in investing substantial sums to finance their share of the project.

This bill would reassure lenders that the authority BPA unquestionably has to back financing for the net-bill projects includes financing arranged through an entity other than the supply system, thereby preserving the integrity of the net-billed agreements.

I should like to respond to some of the concerns that have been mentioned previously today. Among them that the legislation should prescribe solutions to all of the unknowns. If that is to be one of our goals, then we will never have legislation, we will never have a solution, because there always will be unknowns.

We cannot predict the exact form of agreement that's going to be negotiated between the Bonneville Power Administration, the supply system, and the new entity, and the lenders. We cannot predict exactly what the interest rates will be. In fact, we probably can assume they're not going to be the interest rates, even in existence at the time the negotiations of the agreement are completed.

As far as California contracts are concerned, the Bonneville Power Administration already has announced the negotiation of a contract with a California entity for some 250 megawatts of power.

Our own studies, and studies of independents, have indicated that there could be a need in California for as much as 4,000 to 5,000 megawatts over the next 8 to 10 years. Obviously, the Californians are not going to sign contracts to import power from the northwest if they cannot be assured that power is going to be available.

With some of the unknowns that exist for them today, the contracts are not going to be negotiated. But if we can cure some of those unknowns by taking steps such as outlined in S. 1701, then it will be much more possible to negotiate the kind of contracts that will provide revenues to help pave for the plants being built.

It is true that no private company officials have been fired over what has been occurring in the last couple of years. As far as I know, none of our boards have been recalled, but then we are victims; we are not the instigators of some of the actions which have occurred.

I would question the advisability and desirability of attempting to include in legislation a provision which would give a veto right to any agency or entity in the northwest. If such a thing were to occur, it may be infringing upon existing contracts, and abrogate some of the contracts that exist between Bonneville, the supply system, the participants, and the investor-owned utilities.

So I think that's something that we should look at very cautiously before we include it.

To conclude my testimony, and prior to any questions, I would like to commend you, Mr. Chairman, and the other Senators, Senator Gorton, and others, who have joined with you in sponsoring this legislation. And I sincerely hope that with the help of all of us in the region, that it can lead to an equitable solution for all of us.

I thank you.

[The prepared statement of Mr. Satre follows:]

# STATEMENT OF WENDELL J. SATRE BEFORE THE SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES
AUGUST 3, 1983

Mr. Chairman, Senators, ladies and gentlemen. I am Wendell Satre, Chairman and Chief Executive Officer of The Washington Water Power Company. My statement today is in strong support of S. 1701 and is presented on behalf of Water Power as well as on behalf of the three other investor-owned utilities in the Northwest which together with Water Power own 30% of WPPSS Project No. 3 at Satsop, Washington. Those three other investor-owned utilities are: Pacific Power & Light Company and Portland General Electric Company, both of Portland, Oregon, and Puget Sound Power & Light Company of Bellevue, Washington. Pacific and Portland each own 10% of Project 3 and Water Power and Puget each own 5% of that project.

Collectively, our companies serve over 2 million electric customers in the Northwest states including Washington, Oregon, California, Idaho, Montana and Wyoming. The securities of each company are traded on the New York Stock Exchange and collectively our stock is held by 400,000 shareholders located in every state of the union, its possessions and many foreign countries.

We are very concerned about the effect which the recent construction slowdown or "mothballing" at Project 3 will have on our companies and our customers. Until the recent actions of BPA and WPPSS, Project 3, which is now 78% complete, was scheduled to go commercial in 1986 and was ahead of schedule and on budget. Now, if work on the project is not resumed promptly, there is a risk that the project may not be completed, or when completed, it will be at a time and at costs well beyond those estimated by BPA in the sketchy economic analysis dated May 26, 1983 which it provided to WPPSS when it recommended that WPPSS slow down construction.

Our companies alone have an investment in the project presently of more than $600 million. The Region's current investment in the project, our 30% investment plus the 70% of the project investment financed by WPPSS, totals about $2 billion. Neither our companies nor the Region can afford to sit idly by while investments of that magnitude are put at risk.

We stand ready, willing and able, as we have from the beginning of the project, to continue to finance our 30% share on the schedule we agreed to with WPPSS, BPA and the public agency participants under the various agreements relating to the project's ownership and construction. By the recently instituted slowdown, WPPSS, BPA and the public agency participants have chosen to depart from that agreed upon schedule. They assert as the sole reason for such departure difficulty on the part of WPPSS in raising its 70% share of the completion costs through sale of conventional long term tax-exempt bonds. In our view, such departure is avoidable, unnecessary and unreasonable.

It is avoidable and unnecessary to delav the project because there are options available for financing WPPSS's 70% share of the completion costs of Project 3. One such option that BPA is using to finance completion of Project 2 is to fund construction completion costs directly out of its revenues without additional borrowing. This financing option is equally available for Project 3, without federal legislation, but BPA has not chosen to utilize it.

It is unreasonable to delay the project given the need for power, the risks of delay and the substantial additional costs of delay. In its recently completed 20 year Regional Power Plan under the provisions of the Pacific Northwest Electric Conservation and Power Planning Act, the Regional Council expressly included Project 3, on its originally planned 1986 in service date, as a resource necessary and appropriate for meeting the Region's electric power needs. Speaking on behalf of Water Power, the 1986 completion date is timely since the most recent load forecasts show Water Power's firm resources are not adequate to meet its forecasted loads beginning in 1987 and continuing through the decade. Yet, due to the initiation of the construction slow down, the construction management team on the project has been so disrupted that, if construction is not resumed promptly, the project, if completed at all, will be well beyond the time frame assumed by the Regional Council in its Power Plan or by Water Power for its own resource planning purposes. Key managers who have left the project include WPPSS's Project 3 Program Director, Ebasco's two top management personnel and well over 100 supervisors working for the principal contractors on the project. The construction management team is literally disintegrating and with it is going the skill, experience and knowledge of this project which was recently producing site construction performance clearly above industry averages. Prior to the slowdown, this team was producing project completion rates of up to 2% a month and was predicting commercial operation six months ahead of schedule. Now, unless construction on the project is promptly resumed, all we and our customers have to look forward to in place of these very encouraging progress reports are widely divergent estimates of the mind-boggling extra costs that delay will add to the project. These extra costs have been estimated to be as much as $2 billion. Our own estimates indicate that a three year delay could increase our costs for our share of the project by 50%.

It is to avoid those costs and the risk of termination of Project 3 that brings me before you today on behalf of our companies and their electric customers. In a larger sense, however, I cannot help but believe that I am also here on behalf of the entire Region. Through lack of a cure, WPPSS threatens to become an economic plague from which the Northwest and its institutions will be decades in recovering. Projects 4 and 5, the investors in those projects and those projects' public agency sponsors have already fallen victim to this plague. We simply cannot let the same fate befall the net-billed projects, particularly Projects 2 and 3, considering not only how close they are to completion but also the huge investment in those projects, most of which is backed up by BPA's revenues.

Although not members of WPPSS, our companies have not sat idly by as WPPSS's financial problems have grown. Governor Spellman, among others in this room, will remember that the investor-owned utilities along with BPA were the last to leave the bargaining sessions which Governor Spellman set up in an attempt to avert a default by WPPSS on the bonds it had issued to finance the now terminated Projects 4 and 5. That default, of course, as we all know, has now occurred, but BPA and the investor-owned utilities did everything within their power to help WPPSS and its public agency participants avoid defaulting on their 4 and 5 debt. The Spellman meetings were not the first time the investor-owned utilities had assisted WPPSS and its public agency participants with their problems on Projects 4 and 5. A year earlier we had advanced collectively a total of about $12 million in loans to WPPSS as interim assistance to enable it to preserve the assets of 4 and 5 and avoid an immediate termination, while it sought to obtain the agreement of its public agency participants to provide the continuing source of funds necessary to maintain 4 and 5 in a preservation status. Instead, the public agency participants elected to disavow in court their obligations to repay the 4 and 5 debt and those projects were promptly terminated by WPPSS in spite of our efforts and substantial financial assistance.

We find ourselves in a similar circumstance today. We are here to support a bill that would do nothing more than help WPPSS, BPA and the public agency participants do what they promised to do when they signed the various Project 3 agreements 10 years ago--finance their 70% of the project and complete it on time. We believe that the necessary authority and means to accomplish such financing exist today, but recognize others dispute that fact. The bill is directed at ending that dispute.

The irony of our situation today is that some of the very parties who need the assistance of the bill to fulfill their financing obligations and who created WPPSS we understand do not support the bill. It appears their motive is to create enough turmoil, uncertainty and economic hardship that someone comes to their rescue. This tactic failed on Projects 4 and 5 and it will surely fail on Project 3.

What if the bill is enacted? Major U.S. banks have already indicated that if the bill is enacted financing on reasonable terms would be available to complete WPPSS's share of Project 3. BPA would not in any way be "locked in" to those banks or any other particular group of lenders.

The bill envisions creation of an "entity" (corporation) which could borrow from banks or other lenders or issue bonds or other securities to obtain the money needed to complete WPPSS's share of Project 3 (or, for that matter, Projects 1 or 2 provided BPA determined that would be prudent). The bill confirms that BPA has the authority to enter into contractual agreements with the "entity" to pay directly to it from BPA revenues the funds required by the entity to repay its lenders. The bill also confirms that, alternatively, BPA could take money from its revenues and pay the lenders or their trustees directly or make direct payments to those supplying labor, material, equipment, etc. to the Project 3 (or Projects 1 or 2).

Since funds raised by the "entity" would not flow through WPPSS they should not be subject to attachment or levy by WPPSS general creditors--for instance, those who invested in the now-terminated Projects 4 and 5. Rather, these funds would only become WPPSS's property as they were, in effect, converted into physical plant. Municipal property is exempt from execution by creditors in Washington. For that reason and because they would be assured of repayment from BPA revenues, investors should be quite willing to loan money to the entity on reasonable, conventional terms, thus making it possible to complete Project 3 without a long delay or adverse impact on BPA rates. In fact, BPA, if it so chose, could reduce short-term rate requirements below those indicated in its pending rate increase case by methods such as using this borrowing facility to finance completion of Project 2 or to fund interest on new debt.

A plan for at least containing WPPSS's problems must start somewhere and if Project 3 is not to become another WPPSS casualty, must start immediately. S. 1701 is a logical starting point since it preserves existing relationships and existing agency authority and only purports to provide an immediate solution to an immediate problem without any party incurring obligations beyond those originally undertaken in the Project 3 agreements. It is a limited stop gap measure necessary to solve an emergency and in no way frustrates later more global WPPSS solutions such as those which may be recommended by the newly formed so-called "Luce Commission" but which necessarily will be a long time in the making and implementation.

This bill would add nothing of substance to BPA's authority and obligation under the Net Billing Agreements, but would clear the way for performance of those agreements by BPA despite WPPSS' difficulties. The fundamental question is whether BPA's contractual obligations will be performed when the means to perform is readily available. BPA is obligated by the Net Billing Agreements, entered into with Congress' full knowledge and consent, to back financing for construction of WPPSS Projects 1 and 2 and its 70% share of Project 3. The private utility owners of 30% of Project 3 have relied on those agreements in investing substantial sums to finance their share of Project 3.

WPPSS' default on its Projects 4 and 5 bonds has made lenders hesitant to advance more funds to it directly, even with BPA backing. Potential lenders are available, however, to lend funds to a new entity to finance completion of the net-billed projects, backed by BPA, if questions raised by some regarding BPA's authority can be removed. This bill would reassure lenders that the authority BPA unquestionably has to back financing for the net-billed projects includes financing arranged through an entity other than WPPSS, thereby preserving the integrity of the Net-Billed Agreements.

Thank you.

The **Chairman**. Thank you very much, Mr. Satre.

Mr. Durham.

Mr. **Durham**. I have nothing to add, Mr. Chairman.

The **Chairman**. Gentlemen, thank you very much for your statement.

Senator **Gorton**. I would like to thank both of the witnesses for spending such an extended period of time, and waiting for this. I do know that this is very important to them. They know that it's very important to us to seek to move forward in the way in which we can solve our problems constructively, rather than destructively. And their cooperation is appreciated. They have a great state in answering as many questions as possible between now and our return on September 12. I'm convinced that they will help us do just that.

Mr. **Satre**. We will.

The **Chairman**. Gentlemen, I too, want to express my thanks to you for appearing here, and I am aware of the impact that this has on the entire Northwest.

One of the matters that needs to be stated for the record, perhaps, is that your contribution to the construction costs of these plants is not the only financing that you have to contend with. What impact does uncertainty with respect to the construction schedule, and the repayment schedule have with respect to the other financing that your companies must undertake.

Mr. **Satre**. It has a very significant impact, particularly currently, as the action which has been taken by the Bonneville Power Administration, and the Washington Public Power Supply System in delaying the construction No. 3; has resulted in the rating agencies, particularly standard and poor corporations, putting all four of our companies on what they term as credit watch. And it makes any financing by our companies very difficult when placed in that category. It means that they are—it means through the investors that they are considering a change in rating, that they do not know what the rating is going to be, and therefore, it makes investors very reluctant to invest in anyone issuing securities who might be under a credit watch.

The **Chairman**. Mr. Durham.

Mr. **Durham**. The same situation is true for our company, Mr. Chairman. And it really translates into additional costs to our customers, assuming we can finance. The price of money goes up, and there's the threat to the community to use it at a higher risk; our customers end up suffering because of it.

The **Chairman**. Senator Gorton.

Senator **Gorton**. Senator McClure did remind me of a question I had.

You gentlemen have been here, and I believe you've listened to questions which Senator Bumpers asked of Peter Johnson. And I'd simply like to ask you firmly to place on the record whether or not each of your companies, and for that matter the other private companies, are willing to contribute to the completion of plant 3, your percentage of the interest in that plant. That is to say, for every $7 which might come through the vehicle which we are creating here, to improve BPA, or you're willing to put up $3. You're not asking that money be borrowed in some way to bail you out, or to pay your share of the remaining construction costs of 3, are you?

Mr. SATRE. No, we are not. And in my prepared testimony we do speak, and we are, all of us, each one of the four companies, is prepared to put its share of the funds necessary to complete the project.

Senator GORTON. To obtain your 30-percent interest to pay your proportionate share of the—cost of completing construction?

Mr. SATRE. Yes, sir.

The CHAIRMAN. I want to make sure I understand what the situation is in the debates and discussions that we have about this so that I don't misstate the facts. I want to be accurate in the statement that I make.

My understanding would be that you have addressed the direct cost implications of delay in construction of No. 3 in your statement, and in the estimates that you've made of additional costs. Those additional cost estimates do not include within them the additional costs that you might incur within your companies because of what might be termed indirect effects. I'm referring to the effects that delay, and delay alone, would have upon the uncertainty of other financing which you must undertake.

Mr. SATRE. No, they do not. However, when I was explicit in speaking of the cost to our own company, and it could increase the cost by as much as 50 percent, I was including an amount estimated to expend for power to replace the power that we otherwise would get from that project during the years 1987 until the end of the 3-year period.

The CHAIRMAN. Let me be a little more specific. You're involved in building other generating facilities at the present time.

Mr. SATRE. Yes, but none of our estimate costs included any incremental cost over and above what we otherwise would have sustained had this not occurred as a result of actions of the rating agents.

The CHAIRMAN. And if there is action by the rating bureaus, if there is a risk premium, if you will, with respect to the actions taken on No. 3, and because of your involvement in WPPSS No. 3, would that reflect in some costs with respect to the financing of the other generating facilities in which you're involved now?

Mr. SATRE. That is correct. It would increase our costs further.

The CHAIRMAN. That would be an additional cost, and that has nothing to do with additional costs in No. 3. It has to do with the uncertainty created by the delay in resolving that particular problem. Am I correct?

Mr. SATRE. That is correct.

The CHAIRMAN. Mr. Durham, you're nodding your head.

Mr. DURHAM. I agree, sir.

Mr. SATRE. And I could assert also that it would be true of the other two companies not represented here, Puget Sound Power & Light Co., and Pacific Power & Light.

The CHAIRMAN. And those are rather specific costs. They're not just the regional costs that we pay with respect to uncertainty, the region as a whole, or the impact that it has upon the economy, consumption rates, economic activity, growth or lack of growth, recovery or lack of recovery.

Mr. SATRE. Many of those are intangible, but yet very real.

The CHAIRMAN. Gentlemen, thank you very much. I do appreciate your testimony. There may be questions submitted to you by other members of the committee for response in writing. We'd hope that they would be in in a reasonable period of time.

Would Mr. J. Dexter Peach, Director of the Resources, Community, and Economic Development Division, of the General Accounting Office come to the witness table?

Gentlemen, I hate to have ruined your day, and destroyed your evening, but I appreciate your attendance here, and look forward to your testimony. Your prepared statement will be made a part of the record at this point. You may proceed in whatever manner you wish.

## STATEMENT OF J. DEXTER PEACH, DIRECTOR, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY GARY KEPLINGER AND JOHN BROWN

Mr. PEACH. Mr. Chairman, if the Senate is going to be working late, we're pleased to be working late too.

I'm accompanied at the table today by Mr. Gary Keplinger of our Office of General Counsel on my left, a senior attorney, and by Mr. John Brown, a group director who works in our electricity area within the division that I head.

Although my statement is brief, I will go through, and summarize it.

My testimony is based upon a draft report concerning the status of Bonneville Power Administration's repayment to the Treasury of the Federal investment in the Columbia River Power System. We also, as you well know, issued an opinion yesterday, a legal opinion, that deals with the question of Bonneville Power Administration's authority to use the rates to pay costs of unit No. 2. We will be willing to answer to any questions in that area.

The draft on the results of our work was sent to the Department of Energy for comment, and the congressional committee chairman who requested a copy. We've received DOE's comments. We're currently incorporating them, as well as making other appropriate adjustments to the draft.

Basically, I'll try to highlight the current status of Bonneville's repayment of the Federal investment. Federal investment, as noted earlier, is about $7 billion. Federal law requires Bonneville to repay the investment over a period of years. The Bonneville Project Act requires the power rates to be drawn to include the amortization of capital investment over a reasonable period of years.

Subsequent legislation requires Bonneville to repay the Federal investment, and set electric power rates at the lowest practicable level consistent with sound business practice. During the past 10 years Bonneville was repaid little of the Federal investment in the Columbia River Power System.

Bonneville began repaying the Federal investment in 1939 using a cost based approach to determining the revenue needs, which incorporated a fixed repayment schedule. Using the fixed repayment schedule, Bonneville repaid about $364 million through 1965. Because of pressure to raise power rates to meet fixed annual payments, Bonneville adopted, in 1965, a repayment study method for determining revenue requirements. Under the repayment study method, the method—the repayment of the Federal investment was not scheduled. The only requirement is that each project be repaid within its repayment period.

Using the repayment study method, Bonneville has experienced a net operating loss in eight of the past 10 years. In fact, Bonneville has not shown a net operating income since 1976, and is projecting a shortfall again for 1983. Bonneville has paid a little over $43 million on the Federal investment during the past 10 years.

The situation was noted by us in a previous study in June 1981, where we recommended a cost based—mortgage-type—approach to repayment as an alternative.

Under that approach, repayments would once again be scheduled on an annual basis and form the basis for determining revenue requirements.

What I would note, is that others have also noted this problem at Bonneville, including the Office of Power Marketing coordination, a Price Waterhouse study that was made in 1981, and most recently the Federal Energy Regulatory Commission, which reviews and approves Bonneville's rates.

And in that particular report, FERC stated that Bonneville's repayment of the Federal investment is lagging, and pointed out that when Bonneville is unable to collect sufficient revenues in a given year, it does not make those up in the following years, but spreads them over the remaining term left in the repayment period. FERC stated this practice would result in Bonneville having to overprice power in the future to make up deficiencies, and could make such power economically unmarketable.

The repayment issue has also concerned with Bonneville's Administrator. In March 1982 he stated actions had been taken to catch up on the repayment by 1985. While Bonneville has raised its power rates since then, it is projecting a net operating loss of about $121.5 million for fiscal year 1983.

Aside from discussing Bonneville's current repayment status, the report also addresses one repayment policy change Bonneville made in 1972 to repay its highest interest bearing debt first, rather than repaying a portion on each increment of that as it was incurred.

This policy change was made to minimize Bonneville's cost and also has been commented on by others, including the Chief of the U.S. Army Corps of Engineers, and Price Waterhouse in a 1980 Presidential audit report.

Bonneville's highest interest first policy has been justified under sound business principles, since prudent management dictates minimizing expense. While at this time Bonneville's practice does minimize its project repayment it results in higher cost to the Federal Treasury

Mr. Chairman, my statement basically focuses on Bonneville's repayment status, as well as our past and current work relating to this matter. Bonneville objected to our recommendation in 1981 that it adopt a mortgage-type repayment approach, and continues to object to such change. Bonneville's basic arguments against change appear to be revenue shortfalls could still occur, and a fixed-type repayment system would reduce its flexibility to deal with changing conditions.

While we're still evaluating DOE's and Bonneville's comments, we believe that a mortgage type repayment approach could allow for annual adjustments as a result of revenue shortfalls in a preceding year, or years.

Given Bonneville's repayment performance over the last 10 years, we continue to believe that a more systematic approach is needed to assure timely and equitable repayment to the Federal investment.

Mr. Chairman, I, and my colleagues would be pleased to respond to any questions.

[The prepared statement of Mr. Peach follows:]

UNITED STATES GENERAL ACCOUNTING OFFICE

FOR RELEASE ON DELIVERY
EXPECTED AT 2:00 P.M.
AUGUST 3, 1983

## STATEMENT OF J. DEXTER PEACH, DIRECTOR RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION

BEFORE THE
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE

Mr. Chairman:

You have asked us to testify today on a GAO draft report concerning the status of the Bonneville Power Administration's (Bonneville) repayment to the Treasury of the Federal investment in the Columbia River Power System. A draft report on the results of our work was provided to the Department of Energy (DOE) for comment and to congressional committee chairmen who requested a copy. We have received DOE's comments and are currently incorporating them as well as making other appropriate adjustments to the draft report. My statement today will highlight the current status of Bonneville's repayment of the Federal investment.

The Federal investment in the Columbia River Power System exceeds $7 billion. Federal law requires Bonneville to repay this investment over a period of years. The Bonneville Project Act of 1937 (16 U.S.C. 832f) requires that power rates be drawn to include the "amortization of the capital investment over a reasonable period of years." Subsequent legislation, including the 1974 Federal Columbia River Transmission System Act (16 U.S.C. 838g) and the 1980 Pacific Northwest Electric Power

Planning and Conservation Act (16 U.S.C. 839e), requires Bonneville to repay the Federal investment and set electric power rates at the lowest possible level consistent with sound business practices.

During the past 10 years, Bonneville has repaid little of the Federal investment in the Columbia River Power System. Bonneville began repaying the Federal investment in 1939 using a cost-based approach to determining revenue needs which incorporated a fixed repayment schedule. Using the fixed repayment schedule, Bonneville repaid about $364 million through 1965. Because of pressure to raise power rates to meet fixed annual payments, Bonneville adopted in 1965 a repayment study method for determining revenue requirements. Under the repayment study method, repayment of the Federal investment was not scheduled--the only requirement is that each project be repaid within its repayment period (ranging from 35 to 66 years). Using the repayment study method, Bonneville has experienced a net operating loss in 8 of the past 10 years. In fact, Bonneville has not shown a net operating income since 1976 and is projecting a shortfall again for 1983. Bonneville has paid a little over $43 million on the Federal investment during the past 10 years.

A previous study by GAO and studies by others have recognized the repayment problem at Bonneville. Our June 1981 report[1] recommended a cost-based (mortgage-type) approach to repayment as an alternative. Under that approach, repayments would once again be scheduled on an annual basis and form the basis for determining revenue requirements.

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[1] "Policies Governing the Bonneville Power Administration's Repayment of Federal Investments Need Revision," (EMD-81-94), June 16, 1981.

Other studies and analyses have suggested the need for changes to assure timely and equitable repayment of the Federal investment. In 1981, DOE's Office of Power Marketing Coordination encouraged Bonneville to explore a cost accounting amortization method as an alternative to the current method. A Price Waterhouse study in 1981 recommended that Bonneville should collect revenues to systematically reduce the Federal investment on an annual basis. Recently, the Federal Energy Regulatory Commission (FERC) which reviews and approves Bonneville's rates, stated that "Bonneville's repayment of the Federal investment is substantially lagging." FERC also pointed out that when Bonneville is unable to collect sufficient revenues in a given year, it does not make those up in the following years, but spreads them over the remaining term left in the repayment period. FERC stated that this practice would result in Bonneville having to overprice power in the future to make up deficiencies and could make such power economically unmarketable.

The repayment issue has also concerned Bonneville's Administrator. In March 1982, he stated actions had been taken to catch up on the repayment by 1985. While Bonneville has raised its power rates since then, it is projecting a net operating loss of about $121.5 million for fiscal year 1983.

Aside from discussing Bonneville's current repayment status, the report also addresses one repayment policy change Bonneville made in 1972 to repay its highest interest bearing debt first rather than repaying a portion on each increment of debt as it was incurred. This policy change was made to minimize Bonneville's costs and help offset projected revenue deficits. Under this policy, interest paid by Bonneville on the Federal investment is applied to the highest interest projects first, thus, allowing the low interest investment projects (some at 3 percent) to remain outstanding. Bonneville's practice of repaying highest cost debt first has the effect of reducing its interest expenses, which keeps power rates in the Northwest lower. It also reduces the money Bonneville must return to the Treasury. However, Treasury borrowings are increased, usually at interest rates higher than those paid by Bonneville.

This highest interest first policy has also caught the attention of others. The Chief of the U.S. Army Corps of Engineers stated in 1979 that "* * * this policy is improper. We feel that this procedure results in a subsidization of power users by the general taxpayer * * *." In a 1980 Presidential Audit Report Price Waterhouse stated

> "* * * the U.S. Treasury is not relieved of the higher financing costs of newer money as it must redeem the older and lower interest bearing bonds and notes first as they become due. The difference between the higher U.S. Treasury financing costs and the lower financing costs repaid by power users is made up by general tax revenues."

Bonneville's highest interest first policy has been justified under sound business principles since prudent management dictates minimizing expenses. While at this time Bonneville's practice does minimize its project repayment, it results in higher cost to the Federal Treasury.

— — — —

Mr. Chairman, my statement to this point has focused on Bonneville's repayment status as well as our past and current work relating to this matter. I should point out that Bonneville objected to our recommendation in 1981 that it adopt a mortgage-type repayment approach and continues to object to such a change. Bonneville's basic arguments against change appear to be that revenue shortfalls could still occur and a fixed type repayment system would reduce its flexibility to deal with changing conditions.

While we are still evaluating DOE's comments, we believe that a mortgage-type repayment approach could allow for annual adjustments as a result of revenue shortfalls in a preceding year or years. Given Bonneville's repayment performance over the last 10 years, we continue to believe that a more systematic approach is needed to assure timely and equitable repayment of the Federal investment.

The **Chairman**. Thank you very much, Mr. Peach. First, if I understand correctly, when there is a failure of Bonneville to pay upon its amortization schedule, the interest that accrues according to the formula becomes a liability of Bonneville?

Mr. **Peach**. That's correct. And there is interest that will be charged on the interest, for example, that is not paid as it accrues.

The **Chairman**. Yes. So to the extent that we talk about a taxpayer's subsidy as something to do with this, it would be in the interest rate charged them, as compared to the interest cost to the Treasury. Right?

Mr. **Peach**. Bonneville is under an obligation to repay the debt. In other words, one of the charges to Bonneville, from its legislation is that they are to set rates at a level to repay the debt. But under the circumstances occurring over the last few years, those payments have not been forthcoming.

The **Chairman**. I've read the GAO study of this issue that was released yesterday, and I understand there are two other studies underway at this time, one of which is in draft now being circulated, to which you've made reference here.

Mr. **Peach**. Yes.

The **Chairman**. Have those studies looked at the question of elasticity based upon price, elasticity of demand based upon price?

Mr. **Peach**. The study that I was referring to in my statement really is dealing more in just looking at repayment, the status, what has occurred over the last few years, under the repayment study method that Bonneville has been using.

There is other work that we have done over time that looked at forecasting methods at Bonneville and other Federal utilities that have given us some feel with the price elasticity of demand.

The **Chairman**. But that's not addressed in these current——

Mr. **Peach**. No.

The **Chairman** [continuing]. Studies. And based upon those current studies, you are not prepared to give an opinion with respect to the effect of price changes upon demand; am I correct?

Mr. **Peach**. Certainly not in terms of anything we've looked at that would look at where rates may go, and what the implication would be for demand.

The **Chairman**. The reason I asked that question, and I suppose it's fairly obvious, but I'd like to state it so that nobody would misunderstand why I ask if there's some uncertainty about whether revenues increase or decrease with an increase in rates.

Mr. **Peach**. No, that uncertainty is there. Certainly that's one of the phenomenon that has occurred in a number of places in the electric utility industry over the last few years, as rates have gone up. Certainly demand has gone down to be much lower than was initially projected.

The **Chairman**. There may be, therefore, some reason to vary from a fixed repayment schedule if, as a matter of fact, a fixed repayment schedule would require the rates in a period of reduced consumption to rise to the point that it would further depress consumption, and possibly depress revenue.

Mr. **Peach**. It could possibly be there. In calling for a fixed repayment schedule, I think what we are looking for is some more discipline in terms of understanding what the repayment should be, and how far behind we are at a point in time.

The **Chairman**. Have you looked at all at the current rate case before the Federal Energy Regulatory Commission that Bonneville has filed with respect to its repayment schedule?

Mr. **Peach**. No, we have not looked at the one that has currently been filed.

The **Chairman**. You have, in a way, focused on the likelihood of exposure of the Treasury to greater risk as a result of the completion or the failure to complete units No. 2 and 3; have you not?

Mr. **Peach**. No, we have not focused on that specific question.

The **Chairman**. Thank you very much, Mr. Peach.

Senator Gorton.

Senator **Gorton**. No questions.

The **Chairman**. Again, I thank you very much, and again as I have said to other witnesses, there may be written questions submitted for the record. I would appreciate very much your timely response to those questions.

Mr. **Peach**. We will be pleased to work with the committee.

The **Chairman**. Thank you.

Mr. Peach, before you go, I should say for the record how much we appreciate the work that you have done and the report that was filed yesterday, which is very helpful in trying to clarify the authority the Bonneville Power does have to deal with the questions of financing out of net revenue.

That is very helpful to us, and I and our staff would like to thank you for the cooperative manner in which you have worked with us on that report.

Mr. **Peach**. Thank you.

The **Chairman**. And, last, but certainly not least in the panel this evening is Mark Reis, executive director, Northwest Conservation Act Coalition and Ruth Caplan, Washington representative, Environmental Action Inc.

Your statements will be made a part of the record.

You are invited to proceed in whatever way you wish.

## STATEMENT OF MARK M. REIS, EXECUTIVE DIRECTOR, NORTHWEST CONSERVATION ACT COALITION

Mr. **Reis**. Thank you, Mr. Chairman.

I have now been up for, I believe, 34 hours, taking a Red-eye in last night, so if I—thank you for the opportunity to testify today on this issue so crucial to the economic well-being of the Pacific Northwest. My name is Mark M. Reis. I am the executive director, as you mentioned, of the Northwest Conservation Act Coalition.

I will excerpt my statement that you kindly decided to put in the record. The coalition is composed of some 36 labor, ratepayer, and other citizens' organizations throughout the Pacific Northwest. We represent on Northwest energy matters the 150,000 members of those organizations.

The **Chairman**. Mr. Reis, I don't mean to be nitpicking. You said 36; your statement said 35.

Mr. **Reis**. Just a typographical error.

The **Chairman**. Have you gained a new member since?

Mr. Reis. That was a typographical error. I assured myself on the plane, as I read through the back of the testimony, all the members, to make sure that there were, in fact, 36.

The Chairman. Thank you, sir.

Mr. Reis. The coalition strongly opposes the so-called WPPSS amendment, whether it is to be considered as a separate bill or as an amendment to the Interior Appropriations Act.

We believe that it will, in its present form, commit the Pacific Northwest to the completion of another thermal plant that is neither needed nor cost effective, and it will turn over rather unfettered financing authority to an entity unknown to anyone, to be controlled by who knows whom, and to raise funds from unknown sources at unknown interest rates for an unknown period.

We fear, as well, although your discussion with Mr. Collins earlier has tempered it somewhat, that the amendment in its present form may well substantially undercut the conservation provisions established in the Regional Power Act of 1980.

Bailing out WPPSS unit 3 at this point in time in this manner makes no more sense to us than did the 1981 attempt to preserve the assets of WPPSS units 4 and 5, or, for that matter, building four and five nuclear powerplants at one time.

There are three primary reasons that we feel that this is an ill-timed attempt to involve the Federal legislation in the WPPSS matter.

First, we don't believe that WPPSS 3—that completing WPPSS 3 is a cost-effective proposition. We think there is substantial evidence that at the minimum raises serious question.

And in this regard, I would like to support the comments by Mr. Boldt, just previously about all of the questions of the impact of financing WPPSS 3 at this time.

The Regional Power Council developed the regional conservation and electric power plan. All three of the net-billed plants were assumed into the regional plan, as you know, by the 1980 act.

As part of the Federal Base System, they were considered the base on top of which the council would plan additional resources.

If you look carefully at all the comments made today, in writing and orally—by Mr. Collins, by Mr. Johnson, by representatives of the utilities, none of them claimed that the power plan found WPPSS 3 to be cost effective.

It included WPPSS 3, as well as 1 and 2 because it was told to. In an effort to support construction of WPPSS 3, the council, for the first time, instructed its staff to analyze the cost effectivesness of that plant.

It is important to note in that context that the council's plan in table 5-1 contains a list of conservatisms both forecasting conservatisms and resources, not included in the plan, to the tune of up to 9,000 megawatts of conservation that may well be available, very cheaply to the region as it was not included in your plan.

Second, this spring WPPSS itself, pursuant to initiative 394 in Washington State, contracted for a study of the cost effectiveness of completing WPPSS 2 and 3.

Under the assumptions of the contractor, WPPSS 3 was found to be barely cost effective. However, that analysis is out of date, and when combined with the regional council's list of conservation that is in the plan finds actually that WPPSS 3, the cost to complete WPPSS 3 no longer can compete with the conservation that is available to the region.

And the coalition itself in preparation for the regional counsel's consideration of its draft plan, prepared a 400 page model electric powerplant for the region, which I will leave with the committee, although I would not expect you to include the 400 pages in the record.

That shows quite clearly using the state-of-the-art end use analysis, forecasting methodologies, that there are plenty of cost-effective resources without WPPSS 3 to meet all of the region's load for the next—for the rest of the century.

And, finally, BPA's own analysis of resource alternatives, from strictly a resource economics point of view, it points out several times finds that funding WPPSS 3 at this point in time is not the prudent thing to do.

The committee can dismiss our claims that WPPSS 3 is not cost-effective. It is what the previous witness from the buildings trades might refer to as the same old "no-growth rhetoric" of the environmentalist.

However, it was the coalition, or its member organizations over the last year, which were the first to demonstrate definitively no need for Pebble Springs plants, no need for the—Hanford plants, and no need for the WPPSS 4 and 5 plants, all the while that the current promoters of this amendment insisted that those plants were necessary for the future economic viability of the region.

It is not particularly exciting about the coming attraction, the new creature feature, the entity. Financed by the largest New York City banks and produced by the region's private utilities, directed by the Bonneville Power Administration, the entity is coming.

And with ominous organ music in the background, the opening sequence finds an unsuspecting Northwest public being stopped by the scent of WPPSS, the entity.

But who controls the entity, from whom will it borrow money, and at what interest rate, for what period, for what terms, where will it be incorporated, who will serve on its board, how will BPA oversee it?

They hope, of course, if the entity is created and visited upon the region, then it might be followed by WPPSS meets Godzilla, or the bride of BPA.

And finally we think that it is very important that as many of the Senators from the Pacific Northwest have said over the last decade, WPPSS is a State matter. WPPSS should not be the function of Federal legislation.

But now due to the complaints of some, the members of the congressional delegation have decided that it is time to step in. The irony in this instance is despite State laws that provide for the very concise and appropriate mechanisms for addressing the problems of investor-owned utilities, we now have Federal legislation attempting to address the questions of investor-owned utilities, risk and exposure in their investments on WPPSS 3.

IOU's are regulated by State regulatory bodies, but I understand earlier the explanation to Mr. Collins in his concern about the provision in the committee report language that said only generating resources might be considered. Perhaps I should talk more about that with the staff shortly.

But it seems to us that for the first time, we may be taking steps backwards from the commitment made in the 1980 Power Act that said the regional—the Pacific Northwest shall consider all resources in determining what makes the most sense, and if the committee report language, which says that the Administrator must consider it only the cost of generating alternatives in determining whether or not it is wise to pursue this course, if that stays, that means that we have turned our backs on the mandates of the 1980 act, and we will now have to consider only thermal plants and would be unable to consider conservation as a cheaper alternative.

Mr. Chairman, that concludes my testimony. Of course, we will be ready to respond to any questions.

The CHAIRMAN. Thank you very much.

[The prepared full statement of Mr. Reis follows:]

TESTIMONY OF

MARK M. REIS
EXECUTIVE DIRECTOR

NORTHWEST CONSERVATION ACT COALITION

before the

COMMITTEE ON ENERGY AND NATURAL RESOURCES

UNITED STATE SENATE

AUGUST 3, 1983

Mr. Chairman and Members of the Committee, thank you for the opportunity to testify on this issue so crucial to the economic well-being of the Pacific Northwest. My name is Mark M. Reis; I am Executive Director of the Northwest Conservation Act Coalition. The Coalition is composed of thirty-five environmental, labor, ratepayer and other citizens' organizations throughout the Pacific Northwest and represents the 150,000 members of those organizations on Northwest energy matters. (A list of the member organizations is appended to this statement.)

The Coalition strongly opposes the so-called "WPPSS Amendment" -- whether it be considered as a separate bill or as an amendment to the Interior Appropriations Act. The amendment would, we believe, commit the Pacific Northwest to the completion of yet another thermal power plant that is neither needed nor cost-effective; turn over unfettered financing authority to an "entity" unknown to anyone, to be controlled by who knows whom, and to raise funds from unknown sources at unknown interest rates for an unknown period; and substantially undercut the conservation purposes and policies established in the Pacific Northwest Electric Power Planning and Conservation Act of 1980. It would do all of this for one reason: to alleviate the financial burden of bad planning on the four privately-owned utilities in the region.

With all due respect, this legislation might best be termed the "We Never Learn" amendment. Bailing out WPPSS Unit 3 at this point in time in this manner makes no more sense than did the 1981 attempt to "preserve the assets" of WPPSS Units 4 and 5 or, for that matter, building five nuclear power plants at one time.

## COMPLETING WPPSS UNIT 3 IS NOT COST-EFFECTIVE

If the authority granted in this amendment is utilized to finance the completion of WPPSS 3, it will used to build something that the Northwest does not need and cannot afford. Substantial evidence of that fact now exists -- not the least of which is the report of the Bonneville Power Administration (number 4, below).

1) Regional Conservation and Electric Power Plan. The Northwest Power Planning Council's recently completed "Regional Plan" does include WPPSS Unit 3 but it does not find WPPSS 3 to be cost-effective. All of the "net-billed" plants were "assumed into" the Regional Plan in the 1980 Act establishing the Council and mandating the Plan. As part of the Federal Base System, they were considered part of the base on top of which the Council would plan for additional resources. The Council's Plan should not be read as an endorsement of the cost-effectiveness of completing WPPSS 3. In fact, at its last meeting on July 20 -- in the same meeting it decided to send a letter in support of the completion of WPPSS 3 -- the Council for the first time instructed its staff to analyze the cost-effectiveness of WPPSS Unit 3.

2) WPPSS Cost-Effectiveness Study. Pursuant to Initiative 394 in Washington state, WPPSS contracted for a study of the cost-effectiveness of completing WPPSS 2 or 3. Not surprisingly, the study found the plants cost-effective -- although Unit 3 was barely so. If one looks closely at the analysis, however, one will find that in two major respects, the study is deficient. Correcting these deficiencies undermines Unit 3's cost-effectiveness. First, the study's contractor assumed that Unit 3 could be completed for the cost then projected by WPPSS. While even then, that figure was suspect, that assumption is now ludicrous. No one now has the faintest idea what it will cost to complete the plant because no one now knows how it will be financed. It is sure to cost substantially more than previously estimated. That much is clear.

Second, the contractor ignored major aspects of the Regional Plan. In fact, the contractor underestimates the availability of cost-effective conservation by approximately 25% (in comparison to the Regional Plan's official estimates). When these two problems are resolved, Unit 3 can no longer be considered cost-effective.

3) Model Electric Power and Conservation Plan. In anticipation of the Power Planning Council's consideration of its Regional Plan, the Northwest Conservation Act Coalition prepared the 400-page Model Electric Power and Conservation Plan. Using state-of-the-art end-use analysis forecasting techniques, the Model Plan demonstrated how, if we would implement cost-effective conservation measures, the region had no need for WPPSS 1 and 3.

4) BPA Analysis of Resource Alternatives. In making its decision to mothball for three years WPPSS Unit 3, the BPA performed an extensive analysis of the need for the plant and the cost of completing it. Under any financing scenario, BPA did not find it prudent to complete the plant at this time. BPA concluded: "Even if these impediements (to conventional financing) were overcome, it would be difficult to achieve prudent financing at reasonable interest rates give other current circumstances. Financing alternatives are currently either unavailable or not prudent." While adding a new paper "entity" to the financing arrangement might make financing possible, it will not make it prudent.

5) The "Death Sprial." An as yet unanlayzed factor in determining the need and cost-effectiveness of WPPSS 3 is the potential role of price elasticity on the region's load growth. Many analysts are now predicting that the price increases already absorbed and those soon to be included in the Northwest power rates will prompt so much price-induced conservation as to drive the utilities into the so-called "death spiral" wherein prices increase prompting conservation, meaning fixed costs must be spread over fewer kilowatthours sold, which will increase prices, prompting more conservation.... et cetera. If the death spiral does occur it will further undermine the need for WPPSS 3.

## THE PROPOSED FINANCING AUTHORITY IS BAD POLICY

Aside from the lack of need for this authority (because of a lack of need for WPPSS 3), it is simply a bad idea. In fact, it will only make a bad arrangement worse.

WPPSS got into the dreadful mess in which it currently finds itself because the Congress in 1970 and 1971 approved a mechanism that no one in the business world would ever allow. By appropriating money to study these projects -- an action some construe to authorize net-billing -- Congress approved the splitting of the authority to build three nuclear power plants (kept by WPPSS) from the responsiblity to pay for those plants. That was asking for trouble. BPA never established appropriate oversight mechanisms and, as a result, WPPSS construction management failed and budgets shot out of sight. Now, as if that was not bad enough, there is being proposed the addition of even another major "Entity" to this relationship. If this legislation passes, net-billing will become a full-fledged Three Ring Circus: WPPSS, BPA and The Entity.

Some questions come to mind:

* Who will control The Entity?

* From whom will it borrow funds? The current bond trustees?

* At what interest rate will it borrow those funds?

* For what period? What terms?

* Where will The Entity be incorporated? Who will serve on its Board?

* What will be BPA's role in oversight of The Entity? of WPPSS?

* What role will The Entity play in construction? What will be its role in overseeing the expenditure of its funds by WPPSS?

- How will a private corporation (The Entity) control the actions of a public corporation (WPPSS) to assure proper construction practices, etc. -- or -- will there be no oversight?

Given all of these unanswered questions and given the checkered history of mismanagement due to confusing institutional relationships, how can one conceive of further compounding the problems by adding The Entity? It is as if We Never Learn.

## FEDERAL LEGISLATION IS NOT THE PLACE TO CURE PRIVATE UTILITIES' FINANCIAL PROBLEMS

Due to the current pleas of the investor-owned utilities (IOUs), some members of the Northwest Congressional delegation have shed their hands-off attitude toward WPPSS to propose this amendment. Evidently, fears about the financial health of the private utilities are more substantial than such fears about the publicly-owned utilities. The irony is that, under state law(s), there already exists very concise and appropriate mechanisms for addressing such problems. As regulated utilities, the IOUs are guided by the state regulatory bodies. at the same time, they are protected by their Public Utility Commission, Public Service Commission or Utilities and Transportation Commission (as the case might be). It is before these state regulatory bodies -- not the US Congress -- that the woes of the private utilities should be addressed.

In fact, the Washington state Utilities and Transportation Commission (WUTC) just did exactly that. In considering a rate increase request by the Puget Sound Power and Light Company, the WUTC allowed that utility to charge its ratepayers for the cost of the now-terminated Pebble Springs nuclear projects. Without being either "used or useful" -- without ever even being close -- Pebble Springs will now be paid for by the ratepayers. If Puget Power is concerned about the carrying costs of its investment in WPPSS 3, let it take its case to the WUTC. The same holds true for the other three private participants: the Washington Water Power Company is regulated by the same WUTC and both Portland General Electric Company and the Pacific Power and Light Company (for the most part) are regulated by the Oregon Public Utility Commissioner who has, through a circuitous route, allowed the Pebble Springs costs to be included in the rate base of PGE.

With the mothballing of WPPSS 3, the public utilities had finally seen the end to the tremendous rate increases that had beset them (through the BPA rates) over the last several years. By pursuing this legislation in support of a resource that is not cost-effective for the region, the private utilities will exacerbate the surplus of power in the region and cause the public utilities to incur another $1 billion dollars of costs simply because the privates fear the disposition of their case before their regulatory bodies.

## THE WPPSS AMENDMENT WILL UNDERMINE THE COST-EFFECTIVENESS AND CONSERVATION-FIRST MANDATES OF THE REGIONAL POWER ACT

This legislation would be the first Congressional action regarding Northwest energy matters since the passage of the Regional Power Act. It would undermine the precedent-setting provisions of that Act that have recently, and at long last, set the region on a wise energy path.

In establishing conditions under which the Administrator should utilize this new authority for the purposes of continuing construction of WPPSS Unit 3, the Committee Report language states, "The BPA should also take into consideration the following factors prior to making any contractual arrangements pursuant to this provision: A) The Committee's concern over the effect of the arrangement on the ratepayers of the region as compared to other viable alternatives for the acquisition of power from generating resources..." There is no good reason for this provision and, in fact, it flies in the face of the entire concept of Regional Power Act.

If there is to be some consideration of whether it makes economic sense to complete WPPSS Unit 3, this legislation should make very clear that that decision is to be based on the consideration of all viable alternatives. If the Committee's concern is for the ratepayers of the Northwest, then the Committee Report should state clearly that the Northwest Power Planning Council should, prior to the Administrator using this authority, make a determination whether (and when) completing WPPSS 3 is cost-effective compared to the acquisition of all other resources. By not including such a provision, the amendment would 1) undermine the authority of Power Council and the mandates of the Regional Power Act and 2) condemn Northwest ratepayers to paying for a unnecessry and uneconomical power plant.

## CONCLUSION

The WPPSS amendment is the wrong solution at the wrong time. The marketplace will determine if and when it make sense to complete WPPSS Unit 3. It will do so by making financing available after it is clear that the plant is cost-effective and necessary. This amendment predetermines that answer without technical support and in the face of overwhelming evidence to the contrary. One must assume, then, that the legislation's purpose is to address a special interest problem of the privately-owned utilities at the expense of the ratepayers of the public utilities and at the cost of the hard-won and precedent-setting mandates of the Regional Power Act.

## NORTHWEST CONSERVATION ACT COALITION

Alternative Energy Resources Organization, Montana
Audubon Society, Washington
Citizens for a Solar Washington
Clark County PUD Owners Association, Washington
Communication Workers of America, #9103, Washington
Environmenal Information Center, Montana
Eugene Future Power Committee, Oregon
Fair Electric Rates Now, Washington
Fair Use of Snohomish Energy, Washington
Friends of the Earth
Human Resources Council, Montana
Idaho Conservation League
Idaho Consumer Affairs
Idaho Fair Share
Idaho Wildlife Federation
League of Women Voters, Idaho
League of Women Voters, Montana
League of Women Voters, Oregon
League of Women Voters, Washington
Light Brigade, Washington
Mountaineers, Washington
Natural Resources Defense Council
Northern Plains Resource Council, Montana
Oregon Environmental Council
Oregon Fair Share
Oregon Federation of Teachers
Population Dynamics Foundation, Washington
Service Employees International Union, Northwest States Council
Sierra Club
Solar Energy Association of Oregon
Solar Oregon Lobby
Southwest Oregon Community Action Committee
United Food and Commercial Workers, #1092, Oregon
United Food and Commercial Workers, #1001, Washington
Washington Environmental Council
Whatcom County Opportunity Council, Washington

[illegible] w/ [illegible]
Mark M. [illegible]
Natural Resources
Committee 5/4/83

# EVALUATION OF CONCLUSIONS IN THE FINAL COST-EFFECTIVENESS STUDY OF WNP-3

by Margie Gardner, Research Associate
Natural Resources Defense Council

May 3, 1983

## A. Overview and Summary

Initiative 394, adopted by referendum in November of 1981, requires the Washington Public Power Supply System (WPPSS) to assess the cost-effectiveness of various regional energy options -- including the alternative of terminating WPPSS nuclear units 2 and 3 -- before reentering the bond market. Accordingly, WPPSS hired Applied Economics Associates ("the contractor") to develop a Cost-Effectiveness Study of WNP-2 and WNP-3.[1/] A draft analysis was released for public review in November of 1982. That document concluded that WNP-2 and WNP-3 should be completed. The Natural Resources Defense Council[2/] and the Don't Bankrupt Washington Legal Defense Fund,[3/] among others, submitted extensive critiques in response. Neither organization challenged the contractor's endorsement of WNP-2, which is 95% complete. However, both groups argued that the draft did not adequately explore conservation resources, that nuclear power costs were underestimated, and that WNP-3 was not a cost-effective regional resource.

Unfortunately, the final Cost-Effectiveness Study[4/] still embodies many of the inaccuracies that were identified in the draft document. The contractor still contends, albeit more equivocally, that the region should finance the completion of WNP-3. As discussed below, this conclusion does not survive close scrutiny. The most important deficiencies in the final report stem from the contractor's treatment of conservation programs and measures that carry the express endorsement of the Northwest Power Planning Council (hereinafter "Regional Council").[5/]

Based primarily on estimates from WPPSS as of February 1, 1983, the contractor concludes that finishing construction on Unit 3 will cost $1.2 billion. Ignoring the quantifiable environmental costs of nuclear power, and setting aside all money spent before February 1, 1983, electricity from WNP-3 would cost 3.6 cents per kWh in uninflated, levelized 1982 dollars.[6/] (The contactor agrees that this figure, not the 3.4 ¢/kWh estimate cited prominently in the text, is the correct total.)

Although the contractor asserts that WNP-3 should be finished, uncertainty shrouds this conclusion. For example, under two not-implausible scenarios derived by the contractor itself, the region would be better off terminating Unit 3 than completing it. One scenario uses a time horizon ending in 1995 and assumes the invalidation of Initiative 394.[7/] The second scenario extends the time horizon to 2000 and incorporates electricity demand growth on the order of that presented in BPA's low demand forecast. At this writing, Initiative 394 has indeed been declared unconstitutional, and BPA is preparing to revise downward the forecast used in the cost-effectiveness study. Even more important, however -- as shown below -- the contractor's whole analysis is undermined by its omission of cheap conservation resources that are likely to emerge regardless of the status of WNP-3.

## B. Review of Changes in the Final Report

### 1. Costs to Complete WNP-3

The costs of finishing WNP-3 are more accurately reflected in the final document than in the draft, since the contractor reduced the capacity factor from 70% to 60%, shortened the generating lifetime from 40 to 30 years and assigned a 1.01% interest penalty to the capital costs of construction. These changes drove the cost to complete WNP-3 from 29.0 mills/kWh to 35.5 mills/kWh, an increase of 22%. It should be noted that even the contractor's revised numbers are extremely optimistic. Historically, capacity factors for plants in the size class of WNP-3 have averaged less than 55%. No nuclear plant has yet demonstrated the validity of the 30-year lifetime assumption, and many have already fallen short.

However, the contractor persists in refusing to assign an environmental cost to nuclear (and coal-fired) generation, ensuring that no weight whatever can be accorded the relative environmental advantages associated with conservation strategies. Additionally, decommissioning costs continue to be based on WPPSS projections, which are lower than generic estimates made by independent sources.[8/] The problem is further compounded by assuming that a 3% real rate of return can be obtained on funds set aside for decommissioning, which increases the likelihood that insufficient money will be accumulated to meet decommissioning bills when they come due.[9/]

A major additional uncertainty surrounding estimates of nuclear costs emerges from a recent analysis of historical data on 48 nuclear reactors, which indicates that operation and maintenance costs of the larger plants have been escalating about 19% per year, net of inflation.[10/] By comparison, the contractor assumes escalation rates of 1.0% for 1982-1990, 0.5% from 1990-2000, and 0% after 2000.

## 2. Available Conservation

The contractor continues to present "most likely" and "full potential" scenarios for the electricity produced by conservation and generating resources. The "full potential" scenario adopts reasonable penetration rates for conservation, although it by no means represents the limits of technical possibilities. But the "most likely" scenario -- which dominates the analysis -- downgrades the "full potential" by approximately 25%, on the ground that no "organization [exists] which is responsible for developing the packages of alternatives." This ignores the authority of the Regional Council and the fact that the "full potential" scenario is comparable to the level of conservation included in the Regional Council's Plan. Even though the contractor's "full potential" scenario is generally consistent with the Council's actual goals for conservation, the contractor retreats to a "most likely" scenario under which the Council (and its statutory mandate) are widely disregarded over the next twenty years.

The biggest change in the contractor's assessment of conservation resources is the inclusion of residential building standards that are as stringent as those proposed by the Regional Council. Some problems still exist with the analysis of the standards, since the contractor contends that -- based on the Council's work -- electricity saved by the residential building codes will cost 3.6¢ kWh (Cost-Effectiveness Study, p. VI-7). In contrast, the Council reports that the code will cost less than 2¢/kWh.[11] This difference apparently arises from distortic in the contractor's cost methodology, which result in an i[illegible]ated figure.[12]

In addition, the contractor's accounting method significantly understates the benefits of the regulatory programs endorsed by the Regional Council. For example, according to the contractor, the electricity produced from tighter residential building standards is not needed until 1993, and so the final report arbitrarily defers the enactment of standards until that year. In the real world, however, the Regional Council intends to have standards in place by 1986, thus significantly increasing the overall efficiency of the housing stock by 2000 (compared with the contractor's assumptions). The contractor justifies its seven year "hold" on the enactment of standards by citing BPA's fiscal problems, which have led to reductions in planned conservation expenditures. This is an absurd rationale; the Council's authority to adopt and enforce model conservation standards is independent of BPA's budgetary process. Conservation programs that have the Council's backing should have been modeled to come on line as scheduled in the Council's plan, since this would produce the most realistic estimate of end use efficiencies that can be anticipated by the year 2000.

The contractor also continues to ignore the extraordinarily cheap resources available from appliance efficiency improvements; the study assumes that penetrations and efficiencies better than those in BPA's forecast (which excludes new conservation programs) will not occur. This is in direct conflict with the goals of the Council's plan, which aim for dramatically reduced appliance loads, implemented either through strong incentives or standards.

For example, the Council intends to ensure, using mechanisms available through the Pacific Northwest Electric Power Planning and Conservation Act, that by the year 2000 penetrations of high-efficiency water heaters reach 49% in existing (pre-1983) houses alone. This can be compared to BPA's expectation that high efficiency water heaters will appear in only 38% of the total stock (including new houses) by 2000. The magnitude of this difference -- between programs envisioned by the Regional Council and those modeled by BPA and the contractor -- can be inferred from the savings each institution attributes to water heating efficiency improvements. By the year 2000, BPA anticipates 165 average megawatts of savings, whereas the Council's more aggressive program is projected to save 677 average megawatts at a cost of less than 3¢/kWh.[13/]

The contractor ignores the effects of the Regional Council's programs in numerous other areas as well. Savings assigned by the contractor to weatherization of existing homes do not reflect penetrations achieved by the full-financing package that the Regional Council intends to offer low income households and renters. BPA's program is expected to reach about 35% of pre-1980 homes surviving until 2000, while the Regional Council aims to retrofit about 85%. Additionally, the Council's retrofit program is more comprehensive than that proposed by BPA or the contractor, thus producing greater savings per retrofit.

Conversion standards governing switches to electric space heating from other fuels, which the contractor does not include as a possible resource due to an allegedly adverse "political climate," are required by the Council's plan and should be in effect by January 1, 1986.

Similarly, Regional Council incentives to conserve electricity in existing commercial buildings are expected to produce about 600 average megawatts by the year 2000 at a cost of less than 1.6¢/kWh.[14] This is significantly more electricity savings than the contractor attributes to extended and existing BPA programs in the commercial sector, which would save only about 340 average megawatts by 2000.

A final problem with the document lies in its failure to derive average costs for conservation resources, which escalates the cost/kWh of conservation by approximately 15%. Thus, for example, the contractor assesses the average cost/kWh of heat pumps by (1) basing the total cost on the number of heat pumps that are installed throughout the program, and (2) computing the total savings from the number of heat pumps that survive as of the year 2000. This is a skewed and misleading approach, which "penalizes" all units that are retired prematurely without providing any offsetting "credit" for units that last longer than expected. The contractor has effectively imposed an arbitrary "maximum lifetime" on the measure, ignoring the better-than-average performers, instead of evaluating costs and savings by reference to an average lifetime, which sums the records of both poor and good performers. The contractor's approach, if applied consistently, would bar the use of a 30-year lifetime for WNP-3, given the possibility of early retirement due to mechanical or safety problems.

## C. Conclusion

The contractor's continuing failure to incorporate viable conservation options and to reflect the direction of regional planning leads to the faulty conclusion that WNP-3 is cost-effective. Even without correcting the various errors incorporated in the document, the contractor's own calculations leave open the question whether WNP-3 should be completed. The exclusion of environmental costs, and the unwarranted penalties imposed upon conservation in the analysis, further undermine the study's recommendations. NRDC stands by its initial comments on the Cost-Effectiveness Study of WNP-2 and WNP-3[15], which demonstrate that WPPSS Unit 3 is not a cost-effective regional resource.

## FOOTNOTES

1. Applied Economics Associates, Washington State Energy Financing Voter Approval Act: Cost Effectiveness Study of WNP-2 and WNP-3, Draft, November 1982.

2. M. Gardner, "Comments of the Natural Resources Defense Council, Inc. on Implementation of the Washington State Energy Financing Voter Approval Act: Cost-Effectiveness Study of WNP-2 and WNP-3," January 7, 1983.

3. J. Lazar, "Review and Critique: Draft Cost-Effectiveness Study of WPPSS 2 and 3," Don't Bankrupt Washington Legal Defense Fund, January 11, 1983.

4. Applied Economic Associates, Washington State Energy Financing Voter Approval Act: Cost Effectiveness Study of WNP-2 and WNP-3, February 28, 1983.

5. These programs appear in Northwest Power Planning Council, Draft Regional Conservation and Electric Power Plan, January 26, 1983.

6. The most frequently cited figure in the cost-effectiveness document is 33.89 mills/kWh, which does not include the 1.01%/yr. interest penalty on capital. Mike McHugh, Project Director has stated that the interest penalty adds 1.65 mills/kWh to the cost of completing Unit 3 (telephone conversation with Mike McHugh, 4/12/83).

7. The contractor assumed that a judicial endorsement of Initiative-394 would increase the cost of alternatives to WNP-3, by increasing the interest rate for money borrowed to finance new Northwest electrical energy resources. This prospect presumably was removed by the U.S. Supreme Court's recent refusal to disturb lower court findings that the initiative was unconstitutional.

8. The contractor contends that WNP-3 can be decommissioned for $101 million in 1982 dollars. But data from General Public Utilities, determined by the U.S. Department of Energy to be representative for the industry, indicate that the cost of decommissioning a plant the size of WNP-3 would be at least $200 million in 1982 dollars. See C. Komanoff, Power Plant Cost Escalation: Nuclear and Coal Capital Costs, Regulation, and Economics, pp. 272-74 (1981), and sources cited therein.

9. See Northwest Conservation Act Coalition, Model Electric Power and Conservation Plan for the Pacific Northwest, Appendix 1, November 1982. Over the full historic record, U.S. government bonds have returned only 0.5-1.4% real and high-grade corporate bonds only 1.1-2.0% real. *Id.*, pp. 9, 11, 17. Investments with higher average returns (*e.g.*, common stocks or real estate) are too risky to use in a prudently managed decommissioning trust fund.

10. Energy Systems Research Group Inc., The Economics of Closing The Indian Point Nuclear Power Plants (October, 1982), Appendix B & p. B-25.

11. Note 5 above, p. 3-65.

12. The 3.6¢/kWh figure was based on the costs of adding insulation to homes that already exceeded existing building codes, which is more expensive per kWh saved than upgrading current construction standards with the Council's proposed code. In addition, the contractor effectively assumes an average lifetime for weatherization measures that is substantially shorter than the 30-year estimate used by the Regional Council.

13. Note 5 above, pp. 3-103 and 3-66.

14. Note 5 above, pp. 3-103 and 3-74.

15. Note 3 above.

The CHAIRMAN. Ms. Caplan.

## STATEMENT OF RUTH CAPLAN, WASHINGTON REPRESENTATIVE, ENVIRONMENTAL ACTION, INC.

Ms. CAPLAN. Thank you, Mr. Chairman.

Thank you for the opportunity to testify. I would also particularly like to say that I have appreciated the cooperation of your staff in allowing us to testify.

I am just going to summarize the statement. I would like to start off on making a correction. The first heading says "Federal Tax Obligations." Obviously, it should be "Federal Debt Obligations."

That mistake—I can understand how I made it, because I have been looking at the Federal Tax Code in relation to utilities recently, and we have testified both before Senate Finance and House Ways and Means on this issue. So, I think when we were looking at the financial situation, which the private utilities find themselves in with regard, for instance to unit 3.

We shall keep in mind that they have benefited substantially, from the U.S. Tax Code. Nationwide, there is about $10 billion a year in tax subsidies to private utilities.

In terms of the cost of completing unit 3, I would like to comment briefly on that. First of all, it is really only unit 3 that I meant to include in the $1.5 billion. I understand that in recent hearings this summer that Mr. Squire has admitted that unit 3 would cost $1.5 billion, and if the cost of interest during construction is added to that, that would be another half billion, for $2 billion.

I think that these discrepancies in the cost is one thing that certain of the committee would want to look at very closely, to be sure that what the financial obligation that is being incurred that there is full agreement on this, and the testimony of different people is not so far apart.

It is important to keep in mind when you are looking at long-term bonds that you are looking not only at the cost of the original bond, but you are looking at the cost of the interest over a long period of time.

If we were to look at the $1.5 billion for unit 3, and take a 30-year bond at 15 percent interest, we are getting up then to $8.25 billion over the life of that bond.

In addition, it is my understanding that the immediate financing of the completion of unit 3—we are not talking about going immediately to the bond market for long-term bonds, but in fact, we are talking about getting short-term loans from a consortium of banks, or something like this, and that therefore you are going to have to look at the short-term interest for that loan which will get rolled over presumably into the long-term bonds.

So that this is another addition to the total cost of WPPSS 3.

I think that before any decision is made, that the full costs should be examined very, very carefully, and, because the interest rates are very crucial, that there has to be some indication about what those are going to be as well.

We are very concerned that the conservation potential in the Northwest has been shown by the Northwest Power Planning Council to be very great. We understand that they have identified an additional 32 billion kilowatt hours, which would translate to about 3,700 average megawatts.

If we look for a minute at testimony of Bonneville Power Administration before a House subcommittee in July, there is there a graph showing what the power surplus would be.

If you add in there the additional conservation potential. You have pushed your deficit much much further into the future. We need to look very carefully at the provision in the committee report, which Mark referred to and which I think is under—on page 15 under A, where it talks about viable alternatives, for the acquisition of power from generating resources.

Normally, conservationists are not considered as a generating resource, and yet you have enough potential to provide pickers' needs. Certainly close to the year 2000 if you look at this. It is very, very important that you look at the cost per kilowatt hour of available conservation, and you compare that cost, even setting aside the sunk costs—you compare that to the cost of completing WPPSS 3, and this should be an important part of any decisionmaking as to whether it will help the people in the Northwest to complete WPPSS unit 3.

If the decision is to defer the completion of unit 3, rather than fighting not to complete it, I would like to point out that the costs of the 3-year deferral is very sensitive assumptions that are made about load growth, and that again turning to BPA material, if you look at a load growth assumption of 0.8 percent per year, you see that there really is no difference in the cost between a 3-year deferral and going ahead today.

I think this also has to be considered in any decisionmaking.

I think it is clear—first of all, we have said in our testimony that we do not have all the answers to this; we don't repretend to. We think that there are a lot of very serious questions to be raised. Certainly, the public service system have also raised these questions.

To keep this provision on the appropriations bill when all the answers aren't in—we don't have the GAO reports; we haven't had an opportunity to look at all the answers; we would recommend that the provision be moved from the appropriations bill, and be considered in another manner.

Thank you very much.

The CHAIRMAN. Thank you very much. Both of you.

[The prepared statement of Ms. Caplan follows:]

# BONNEVILLE POWER ADMINISTRATION'S FINANCIAL ROLE
# REGARDING WPPSS UNITS 1, 2 and 3

Testimony Presented By

RUTH CAPLAN

Washington Representative
ENVIRONMENTAL ACTION, INC.

Before the

COMMITTEE ON ENERGY AND NATURAL RESOURCES

U.S. SENATE

On Behalf Of

ENVIRONMENTAL ACTION INC.

ENVIRONMENTAL DEFENSE FUND

ENVIRONMENTAL POLICY CENTER

FRIENDS OF THE EARTH

NATURAL RESOURCES DEFENSE COUNCIL

PUBLIC CITIZEN'S CRITICAL MASS ENERGY PROJECT

SIERRA CLUB

UNION OF CONCERNED SCIENTISTS

August 3, 1983

Mr. Chairman and members of the Senate Energy Committee, my name is Ruth Caplan, Washington representative on energy policy for Environmental Action, Inc. Today, I am also testifying on behalf of Environmental Defense Fund, Environmental Policy Center, Friends of the Earth, Natural Resources Defense Council, Public Citizen's Critical Mass Energy Project, Sierra Club, and the Union of Concerned Scientists. We appreciate this opportunity to share with you our concerns regarding the proposed provision for financing of WPPSS units 1-3, which first appeared as Section 317 of HR 3363, "Department of the Interior and Related Agencies Appropriation Bill, 1984," and which has subsequently been introduced as S 1701.

We are not here today as experts on the financial quagmire into which the WPPSS project has sunk. Nor are we proposing a brilliant solution to what has become a tragic situation in the Northwest. We are here, instead, to raise questions which we must be answered before the wisdom of any proposed solution can be assessed. For this reason, we are concerned that the WPPSS provision has already been brought to the Senate floor as part of the Interior Appropriation bill, without benefit of the proceedings of this hearing or of a hearing in the Northwest.

## Federal DEBT ~~Tax~~ Obligations

Our first question concerns possible repercussions of the provision for federal revenues. The Senate Report 98-184 states that BPA does not receive federal appropriations and that "BPA's costs are, therefore, borne by its customers, not by the U.S. Treasury or the U.S. taxpayer." (p. 114) However, this statement in the Report does not square with the fact that debt service on the bonds for WPPSS 1,2 and 3 comes before any other operating expenses of Bonneville and that such debt service is paid before repayments of borrowings by Bonneville from the U.S. Treasury. (Bear, Stearns Report by David M. Breen, "Washington Public Power Supply System")

BPA already has a poor record of repayment of its debt to the federal government. In a recent Federal Energy Regulatory Commission (FERC) order on BPA rates, FERC notes that BPA had deferred payment of $117.8 million in interest on its federal debt in 1981. BPA itself admits to being $180 million in arrears in its report of May 26, 1983 ("Analysis of Alternatives Related to WNP-3"). Further, FERC notes that BPA has developed "a practice of deferring or ignoring repayment of principal whenever it fails to recover these amounts over the effective period of its rates." (FR 48, 120, p. 28319) BPA then creates a "bow wave" of unpaid investment costs by deferring the full unpaid balance to the future. FERC concludes that BPA's repayment of its federal loan for its generation and transmission investment is $780 million to $1.4 billion in arrears, as of fiscal year 1981.

Section 317 proposes that under a contract between BPA and a new financing agency, BPA would be committed to "pay the principal, interest, and related costs on the new borrowings directly to the new entity, its obligees or their trustees."

Does the Section 317 provision guarantee that the federal debt will take precedence over the new WPPSS bonds? Are there any other guarantees that taxpayers will not be bearing the brunt of this new financing scheme through continued deferral of repayment of the federal debt?

## Financial Health of BPA

Neither Section 317 nor the Committee Report indicate the magnitude of new debt obligations which would be incurred by BPA with the new WPPSS financing proposal. To date WPPSS has sold $8.4 billion in bonds to finance WPPSS 1-5, with $6.1 billion of this for WPPSS 1, 2 and 3. Nuclear construction costs across the country have escalated dramatically in the last decade with 10-fold increases characterizing plants such as Shoreham on the East Coast and the Clinch River Breeder Reactor in Tennessee. The Washington State Senate inquiry into cost over-runs for WPPSS 1-5 indicates that the original cost estimate was $4.1 billion and that the official estimate in 1980 was $17.3 billion. In its most recent budget, WPPSS indicates the cost of units 1-5 to be $23.8 billion, with units 1-3 accounting for $12 billion of this. ("Governor's Panel, A Report on the Economic Alternatives Facing the Region on WPPSS Units 4 and 5," 1981, p. II-1).

Given the uncertainty of future costs to complete WPPSS 1-3, and the lack of any estimates in the Committee Report, the full magnitude of financial obligations which BPA would incur by this proposal appears to be currently unknown. We expect the cost of completion of units 1-3 would be at least $1.5 billion. In estimating the full obligation being undertaken, the interest as well as the principal must be calculated. A bond offering worth $1 billion at 15 percent interest, for instance, reflects a cost of $5.5 billion for a 30-year bond. This is still not the full cost, however, because the $5.5 billion figure does not take into account that the only immediate source of funding will be short-term bank loans on which interest payments will be made and which will have to be rolled over with long-term bonds.

This unknown financial risk is compounded by the somewhat precarious financial position of BPA. BPA is currently suffering from consumer reaction to the large price increases which have been necessitated in order for BPA to meet its current debt obligations on WPPSS 1, 2 and 3. When the net-billing arrangement with WPPSS participants was no longer sufficient to generate the needed revenues, BPA authority extended its financial obligations by paying cash to its net-billed customers when its net-billed obligations exceeded its revenues from those customers. The net-billing provision has caused rate increases for all BPA customers. As prices have increased, use of electricity has declined and further price increases have been required to generate the needed revenue to continue with the WPPSS projects. Over the last four years, BPA revenues have increased four-fold, yet total sales in the Northwest were lower in 1982 than in 1979.

The net effect of this downward spiral, combined with the impact of the economic recession, is reflected in BPA's projected revenue shortfall of $350 million for fiscal year 1983. The financial problems faced by BPA are further reflected in BPA's May report which justified mothballing WPPSS 3. Here BPA states:

> Given these circumstances, BPA must husband its fiscal resources and critically review any increase in financial exposure. BPA's only choice is to reduce financial risk and not further encumber revenue-generating capability of the Federal System in the current circumstances.
> ("Analysis of Resource Alternatives: Summary and Conclusions," Bonneville Power Administration, May 26, 1983, page 6.)

What changes have occurred in BPA's financial status since May to justify its incurring the new financial obligation contained in Section 317?

### Sale of Excess Power

The Committee Report states that BPA is to consider "the need for and the marketability of the power." Already the Northwest has a substantial power surplus. Further, the Northwest Power Planning Council, in implementing the Northwest Power Act, has identified an additional 32 billion kilowatt-hours which can be made available annually at an average cost of less than 2.2 cents per kilowatt-hour. Yet BPA has recently cut back on its conservation programs because of the surplus power in the region. The Committee Report, while indicating concern "over the effect of the arrangment on the ratepayers of the region" limits its consideration of alternatives to "the acquisition of power from generating resources" (emphasis added). Conservation has been effectively excluded from committee consideration.

Can BPA guarantee that, disregarding sunk costs, WPPSS 1 and 3 will produce power at less than 2.2 cents per kilowatt-hour?

If WPPSS 1,2 and 3 or just WPPSS 2 and 3 are completed, how will the excess power be marketed? Will ratepayers in the Northwest be guaranteed the benefit of the cheapest power in the region or will Northwest ratepayers subsidize the sale of power to California?

### Need for Local Consultation

We are concerned that no hearing has been scheduled in the Northwest on this proposal to solicit local opinion on proposed legislation which will have financial implications for ratepayers in the region. We are equally concerned that the Public Power Council in the Northwest has voted against supporting Section

317. We further understand that BPA staff has advised House Energy and Commerce Committee staff that BPA staff did not request this provision. If the general public has not been consulted, if the public utilities are not supportive and if BPA has not requested this assistance, who is pressing for passage of this provision? If it is in response to concerns raised by the private utilities, why should all U.S. taxpayers and all ratepayers in the Northwest be forced to become part of a solution?

## Determination of Liability

Section 317 appears to segregate WPPSS 1-3 from WPPSS 4 and 5, by proposing that a new financing entity be established to finance WPPSS 2 or 3. How will the separation of WPPSS 1-3 from 4 and 5 effect the bondholders of WPPSS 4 and 5 bonds? Further, how can Section 317 retroactively prevent the unit 1-3 assets financed through WPPSS from being seized by unit 4 and 5 creditors? Doesn't Section 317 just protect new financing of the units? If this is the case, would it not be wise to cease pumping more money into these units until creditors' claims have been settled? Has BPA taken an unofficial position on this matter?

## Conclusion

While there are clearly a broad range of questions relating to this proposal, we are most deeply concerned that the federal government is stepping in with a proposal to rescue the financing of nuclear projects which are experiencing major cost overruns and ignoring the conservation potential of the region. BPA's decision to reduce its energy conservation programs due to excess energy is clear indication that when excess capacity is built into a system, cost-effective conservation is the first to suffer. Congress recognized the vital role of energy conservation and renewables in drafting the Northwest Power Act. Now is not the time to cast aside the promise of the act in order to rescue WPPSS 3.

The CHAIRMAN. I want to make one comment for the record. In regard to the Federal Energy Regulatory Commission finding with respect to the amount that BPA might be behind, I think we should in fairness state, that in their orders they made comparisons, that the repayments that have been made as compound amortization repayments level as the lower of those two figures, in a straight-line method, being the higher of those two figures, but that doesn't necessarily mean that that was the repayment schedule upon which they were making repayments, and it is not necessarily the only measure of how much they may be in arrears on repayment.

Ms. CAPLAN. That's right. I didn't put in those technical points in terms of the two ways of looking at it. Actually, I debated as I was typing it—out at in. Anyone familiar with utilities is also familiar that there are many different ways of doing bookkeeping, and sometimes they are done simultaneously different ways for different purposes.

The CHAIRMAN. This is at least the opinion from the Senator from Idaho—the reason this legislation is here today with my sponsorship and strong support is not at all based in an overweening concern about the financial health of IOU's as compared to publicly owned utilities, but as you stated, Mr. Reis, I am concerned about what is going to happen to the economy of the Northwest, about the impact upon all of the consumers of the Northwest, those who are customers of the publicly owned utilities, as well as those who are customers of the investor-owned utilities.

As I think you must know, I have attempted, over the last 8 or 9 months, to put forward suggestions which I thought were reasonable, that had some chance of success in the Congress, and that would deal with the growing problem of the economic debacle that faces the Northwest.

It is easy enough for all of us to look back and criticize where we have been. I can be critical of that task as well.

What I am trying to do is deal in the realities of the present, regardless of how we got there, to minimize the impact upon the Northwest. I think that is your concern too, but every once in a while we get so anxious to criticize someone else and his past actions, that we forget what our beginning point is and how we must deal with those problems.

Neither you nor I were here when net billing contracts were entered into. I was not in the Senate at that time. Neither you nor I were here when the rolling maturity, rescheduling of debt was endorsed as a practice for Bonneville Power. Both of those have impact on where we are.

We might have a different opinion on what the load forecast would be. I corrected the record earlier, but I should have corrected the record even earlier when one witness made some comment, and I have forgotten now who it was, about the load forecasts in those days having been made by Bonneville.

The load forecasts in those days were made by PNUCC, and Bonneville participated in that as did all the public agencies in the Northwest as did all the IOU's in the Northwest, and the load forecasts, for whatever reasons proved to be larger than subsequent experience has justified.

Mr. **Reis**. I appreciate what you are saying, Mr. Chairman, and certainly do not mean to impugn anyone's motives. I am concerned, and it is a natural concern, not so much for myself since I was not necessarily personally involved, but when several organizations over a long period of time, at great expense, spent a lot of time attempting to demonstrate two decisionmakers, in this instance, Bonneville, the utilities, that their plans may not be in the best economic interests of the region.

And they are not just not listened to; they are dismissed as crazy. It is very difficult, then later to have everybody else just dismiss hindsight, when in fact there was foresight but the foresight had been dismissed.

And so on behalf of those people who were here, and who were saying, this didn't make sense, and who now are forgotten, that I bring that subject up.

But I agree with you that the issue before us is where do we go from here, and in 1980, the Congress—actually I as a staff person was very involved in the passage of the Power Act which set the region on a future that no other region in the country has been lucky enough to get, and that is to really decide through what I think was a very objective and positive process—what makes the most economic sense for the region; and the Council did an excellent job in that. We participated very strongly in it; and I would hope that should a particular provision or something akin to it pass the Congress and become the authority of the Administrator that that same sort of a process would be incorporated into it—that is, that if there is a decision that, yes, this is or is not a prudent undertaking, that is to restart WPPSS No. 3 or No. 2 of No. 1 or whatever it might be, utilizing the new authority that that decision be one made with at least the concurrence of the Regional Power Council, based on a full consideration of all the alternatives.

And I am a bit concerned that the language, as Mr. Collins brought up earlier, would, one, limit it only to the BPA Administrator, but more importantly limit his decisionmaking only to generating resources; and perhaps that particular provision rather than just the colloquy you mentioned earlier—changing the report language to say that prior to utilizing this authority, the Administrator shall consult with the Regional Power Council to determine whether or not it is the most cost-effective action.

The **Chairman**. There has been some recent controversy in the Northwest of which I have been a part, I guess, with respect to what the role of the Northwest Council, the Planning Council is. I know that the chairman of that council has stated upon more than one occasion that Bonneville has no right to question their assumptions; their only option is to do what they are told.

Mr. **Reis**. I think the best quote was the effect of Mr. X—I don't remember who the BPA individual was at the time—"You don't seem to understand our relationship; we are not one of the supplicants at BPA's table."

The **Chairman**. Yes, I think that was the quote that I have heard, but it was more or less "You do what we tell you; don't question what we told you to do," which I think is a complete inversion of what the statute says.

That is a basic concern that I have, because I don't think it was the intention of the Congress, and I think it is quite clear that we did not create an unelected supra Regional Government that has the right to order all Federal and State agencies what to do.

Mr. REIS. We certainly walked a very interesting, if not, tight Constitutional tightrope on that.

The CHAIRMAN. Indeed, I think we would have a great deal of difficulty with the Constitutional prohibitions and constraints, if indeed it were read to indicate that a council composed of eight men appointed by four Governors can override both those Governors' State actions and all units of local government, as well as all units of Federal Government. That would be an interesting concept of Government to which I had not yet subscribed.

Mr. REIS. The act is sort of in and of itself that, in any event——

The CHAIRMAN. The act certainly gives them the authority and the responsibility for making recommendations, and they give all entities in the Northwest some reason to listen to those as recommendations which are persuasive, but not necessarily conclusive.

Let me add too, Mr. Collins' testimony has confused you or caused you some concern with respect to what the Northwest Council's position is.

Mr. REIS. Well, no, no, no. I testified before the council about the subject that he brought up, 2 weeks ago, when they were considering sending a letter.

I am fairly clear of their position. I was confused by the discussion you had in assuaging his fears about the subject that is talked to. I didn't quite understand how you and your staff had determined that——

The CHAIRMAN. I was addressing a slightly different point, because it seemed to me that they had never looked at the cost-effectiveness of 3; and let me state at the outset that having been so much involved in the creation of the Northwest Act, the fact that those three plants were included in the base was a part of the balance that was necessary to get the bill considered.

As a matter of fact, had it not been in that bill, I suspect the bill would not have passed.

Mr. REIS. That's right.

The CHAIRMAN. Now, that doesn't mean that we are bound by those decisions; we can go back and look at them again and evaluate them again to see if we want to change our minds; but that was not a blind action, it was a part of the balancing that was necessary.

But in testimony before the House Interior Subcommittee on Mining, Forest Management and the Bonneville Power Administration, on June 10, 1983, Mr. Robert Saxfig, vice chairman of the Northwest Power Planning Council, had this to say:

> In all cases evaluated by the council, the three WPPSS projects—1, 2, and 3—were assumed to be completed and operated.

This assumption was made because under the Regional Power Act, these resources were previously acquired, and were therefore not new resources for inclusion in the plan. Nevertheless, the council did evaluate the cost to complete each of the WPPSS projects, and compared these costs with the cost estimates available for new thermal generation.

The conclusions are rather dramatic. When estimated on a consistent basis, in constant 1980 dollars, on costs expended, as of December 1983. The cost to complete the three WPPSS plants expressed in levelized costs of energy are 3 cents per kilowatt hour for plant No. 1; 1.8 cents per kilowatt hour for plant No. 2; and 2.5 cents per kilowatt hour for plant No. 3.

All of these costs are significantly lower than the estimated 4.7 cents per kilowatt hour for a new coal plant. The cost to complete these three plants is also cheaper than all the cogeneration, and some of the hydroelectric power and conservation included in the Council's plan.

In view of the statement you made that they hadn't made any evaluation, I thought we should at least include in the record here that whatever the extent of that evaluation they at least represent an evaluation was made.

Mr. Reis. They looked at it—and if you look at all the statements made today, especially by Mr. Collins. It is exactly what he said—they considered if they had to get another thermal plant instead of one of those, what would the costs be, but it was always a question, as Mr. Collins said, if we don't have 1 or 3 in the plan, then we are going to have to get another thermal plan, and how does it compare.

The Chairman. But that is not what Mr. Saxfig said——

Mr. Reis. His testimony is that——

The Chairman. But that was on June 10, and that is why I thought it might be well to have Mr. Saxfig's own words in the record at this point.

Senator Gorton.

Senator Gorton. I have a couple of questions of you. I would like to say to both of you that I do appreciate your participation in this; it is a very fine learning process, both Ms. Caplan, and yours, Mr. Reis, as well; and you have had to be more patient that anyone else here——

Mr. Reis. With the exception of the court reporter who has not had his face out——

Senator Gorton. That is true, and I greatly appreciate it.

I am looking at your written testimony, Mr. Reis, and I am on the top of page 3.

The Chairman. Would you yield for just a moment, because with due respect to the court reporter, this is not the only one we have had today. [Laughter.]

Senator Gorton. I am on page 3, and you make a reference to a study with which I am not familiar right at the top there.

Can you tell me what was contracted for that cost-effectiveness study and when its report was produced?

Mr. Reis. It was, I believe, the contract was let sometime last Fall, almost a year ago; the draft as I remember came out in January of 1983, and the final cost- effectiveness study was concluded in March of 1983.

Applied Economic Associates, a consulting firm in Seattle, was the contractor picked for that study.

Senator GORTON. I see. And now, as I go back to the bottom of the previous page of your testimony, when you speak of the council for the first time instructing its staff to analyze the cost-effectiveness of WPPSS 3, that does confirm the statement which I had from Governor Evans last Friday, when I discussed that matter with him.

I—it was my understanding, and I hope that I am not putting him on the spot; he feels that a reasonably accurate study can be completed in a relatively short period of time.

Mr. REIS. That's right.

Senator GORTON. Almost within the time frame that we are speaking about here.

Mr. REIS. As I understand, that is correct.

Senator GORTON. But if that cost-effectiveness study comes out favorably, that is to say, comes with a conclusion that the completion of WPPSS 3 is cost-effective, will your testimony and your position be likely to be different?

Mr. REIS. The simple answer is, somewhat.

We participated very carefully in 2 full years in the council's deliberations, and in developing their regional plan, and as you well know, the methodology one uses in determining whatever the outcome of the study is is very important; and that is, of course, why we were so involved, and we are very happy with the council's methodology, and felt very comfortable with their decisions as a result of it.

Presuming that we still feel comfortable with the methodology they used, then, if they found; and if they found; and we are comfortable with how they found that WPPSS 3 was cost-effective, it would certainly change our testimony.

One thing I hasten to add, the Northwest Conservation Act Coalition is antinuclear; it is not anticoal; it is dedicated to working toward most cost-effective resources, and, if while some member organizations may have particular ideological functions in that area, we do not.

Let me hasten to add, though, as I understand—and this is why they are able, they will be able to come up with the study as quickly as Governor Evans suggested—is that it is impossible really for the council to evaluate the cost-effectiveness of WPPSS 3 because we have no idea of what the costs of financing are going to be.

The $960 million we have all talked about today is the direct cost. It has no financing costs involved in that. And, of course, if it is 5 years at 15 percent, it is a lot different than 30 years at 8 percent, and so what the council, what the staff suggested at the meeting—and I am not sure—in fact, after I wrote this, I found out that it is not exactly clear whether the staff was instructed to do this analysis; Evans opined that it would be a good thing to do; but if he told you that they were doing it, I guess they are.

Senator GORTON. Now, I hesitate to make that as a representation.

Mr. REIS. Right.

Senator GORTON. That is what I heard.

Mr. REIS. After I Looked, I found the same thing to be true—suggested was, that because of the uncertainty about the financing, what they could do is take WPPSS 1 and 3 out of the mix they currently have, rank everything through in all of the scenarios of demand, how much power they are going to need, and they could then come up with a maximum cost, under which it would still be a cost-effective part of the mix.

So, it is sort of a backwards point, since we don't know what it is actually going to cost; you are going to be going at it backwards.

Senator **Gorton**. OK, and I do want to get back to that, because it seems to me that the last point that you have made is an important one.

Can I ask you, does your coalition favor the completion of WPPSS 2?

Mr. **Reis**. The coalition has no particular position on it; we have, in developing the model plan, we took as a benchmark the cost to complete the—coal plan unit 1 or WPPSS 4 and 5, which at the time last year were the marginal resources for the region, and analyzed what would be more cost effective than that, and how much of that cost effective resource was available, and found out enough was available that we would not need WPPSS 1 or 3.

WPPSS 2 was not able, under an aggressive conservation scenario to have its need obviated. So, while the coalition has not taken a position in support of, we are certainly not opposing construction, the completion of WPPSS 2. Senator Gorton. Finally, you make a set of remarks on page 7 about the investor-owned utilities, am I to take from those remarks that your coalition would favor permitting the IOU's to add their investments in a nonoperating and nonconstructed WPPSS 3 to their rate base?

Mr. **Reis**. No, you should not take that position, as you sure expected.

The—it is in that forum. It were proven, and presumably it would be some sort of contested case proceeding, that the best interests of the ratepayers would not be served by allowing severe economic impacts to hit the shareholders, then certainly it is something that we would want to consider.

But it certainly is clear in the State of Washington anyway that the public-owned utilities are in no financial or political position to be expanding their territories, so I don't think they would have to worry.

Senator **Gorton**. All right, and finally I would like to get back to the implication of one of your earlier statements, and I suppose in the case of both of your testimony, what troubles me is the implication that it is "we"--the Senator emporium, I felt, that the U.S. Congress should decide the question about whether or not WPPSS 3 should be completed now or at some time later; and you raise valid questions about whether or not that should go on.

Am I wrong in assuming that it seems to me that the appropriate function for the Congress is to provide a vehicle or a methodology by which the region can make that decision; certainly, I don't want to make the decision as to whether the study shows something is cost effective or not effective; our design in providing this particular statute was to allow a way in which the region can make that determination.

We don't believe it can because of the nature or the impact of the WPPSS 4 and 5 default at the present time. It is our design in this amendment to see to it that an entity which is in the Pacific

Northwest—perhaps there should be changes to see that there is more participation in that—can thoughtfully consider all of those pros and cons, all of these other alternatives.

You are not, either of you, trying to tell us that we should make that determination here, are you?

Mr. Reis. Certainly not. The Administrator at Bonneville had made that decision. He made what he thought was his prudent decision that at that point in time WPPSS 3 should be delayed for 3 years.

Senator Gorton. He made it based on the fact that he couldn't get long-term financing to complete it.

Mr. Reis. That is correct.

He made it because basically his only choice was to put it in his rates, and that just didn't make sense.

Senator Gorton. But if he could have got long-term financing——

Mr. Reis. Financing, he would have continued construction, no doubt.

Under the set of circumstances he faced, he made a judgment which I think was a sound one, and you probably agree.

Senator Gorton. I do.

Mr. Reis. And I certainly don't want to judge whether he should or should not have made that decision. Our fear is not that you should make this decision now about the substance of the matter, but that the process that would result from the mechanism you provide might be prejudged by the mechanism.

For example, the concern about generating resources, the concern about the entity, it depending on what it is, it may prejudge the decision either way.

If the entity is something that can get nothing or say that the banks are only willing to use it for the purposes of lending money guaranteed by BPA at 15 percent, for 10 years, it is going to prejudge the decision presuming a rational administrator against building it.

And I am concerned that we don't have any idea what this is, and Mr. Metzenbaum, I guess—he kept referring to Chemical Bank on the floor and earlier, as a potential testifier; I am not sure if Chemical Bank in particular, but it seems to me some potential lenders would be someone I would like—I have no idea what the options are, and it seems to me that until we know that it is important—the Regional Act is a perfect example.

The Regional Power Act that passed in 1980 is a very different vehicle than the one that was provided by the utilities in 1977 or the one that was written in Senator Jackson's kitchen in 1978.

If we had taken either of those two vehicles, it would have been a very different outcome, right now; and so, if we are not rushed, which is not to say to take the 3 years the Regional Act took, but if we can take some time to make sure the vehicle is the right one, then I think the region certainly can make a decision.

Senator Gorton. Well, I for one would certainly appreciate your comments on what that vehicle should be, and there is no way that I want to make that final substantive decision as to what should be done.

But I do want to let the region be able to have a set of alternatives.

Mr. Reis. Certainly. Peter Johnson doesn't want to make that decision either, but I think he knows he is going to have to.

Ms. Caplan. I wanted to also clarify our position.

You know we did specifically say that we thought it was important to have local consultation. Having people come here is one small part, I think. I think an opportunity for people in the region to testify in the region would be very important.

I do fear that I should say that I was quite concerned and so were a number of others that this provision seemed to be going through so quickly, that there wasn't an opportunity, really, for adequate discussion of it.

I hope that we will have now more opportunity to look at its implications, and to—we would be happy to work with your staff in talking about, you know, possible solutions. I think that providing some time for a complicated decision like this is very important.

Senator Gorton. I should like to thank the witnesses.

Thank you, Mr. Chairman.

The Chairman. I, too, wish to again thank the witnesses for your patience. I have ridden that Red-eye from the west coast more than once and look where it got me, so you had better watch out.

Mr. Reis. Maybe I'll buy a season ticket, Senator. [Laughter.]

The Chairman. I do thank all the participants this afternoon. It has been a very constructive hearing. I think the record does assist us in the deliberations and in the interpretation of what must be done.

Again, I thank all the witnesses.

With that, the committee stands adjourned.

The record will remain open for additional questions that may be submitted by any member of the committee to any of the witnesses. The record will remain open for those questions if they are submitted within 1 week, and an additional 2 weeks for the response to those questions, making a time period of 3 weeks.

Normally, I will leave the record open for 2 weeks, but in view of the fact that we will be in recess, I think it is justified to leave the record open for 3 weeks.

The committee is adjourned.

[Whereupon, at 8:10 p.m., the hearing was adjourned, subject to the call of the Chair.]

# IMPOSING SPECIFIC DIRECTIVES ON THE BONNEVILLE POWER ADMINISTRATION

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FRIDAY, SEPTEMBER 9, 1983

U.S. SENATE,
COMMITTEE ON ENERGY AND NATURAL RESOURCES,
*Seattle, Wash.*

The committee met, pursuant to notice, at 9 a.m., in the Federal Building, Seattle, Wash., Hon. James A. McClure, chairman, presiding.

Present: Senators McClure and Gorton.

Also present: Gary Ellsworth, deputy chief counsel—natural resources; and Graig Gannett, counsel for the minority.

## OPENING STATEMENT OF HON. JAMES A. McCLURE, A U.S. SENATOR FROM THE STATE OF IDAHO

The CHAIRMAN. This meeting will come to order.

Good morning ladies and gentlemen. Unfortunately this hearing today must open on a very sad note because we had expected that Senator Jackson would be present and participating with us in this hearing today. His untimely death was a shock to all of us and certainly will affect at least our thoughts as we go through the process of hearing testimony from people whom he represented and who, in turn, represented him. He was certainly one of the most respected Members of the Senate with a long and distinguished career of service to the people of this State and to the Nation. And as a former chairman of this committee, I can say that he had the respect of every member of the committee, and the current occupant of the chair learned a great deal serving on the committee during the time he was the chairman of that committee. His absence is sorely felt. I will miss him personally as well as officially.

I would also say that there was some thought that perhaps we ought not to hold the hearing today because of his death but I believe "Scoop" would have wanted us to go ahead and try to resolve a portion of one of the most pressing problems to confront the Northwest.

The hearing today is not addressed to a total solution of WPPSS but deals with one possible solution, one part of the problem, and we will be dealing with that for a long, long time to come.

With this in mind, today the Senate Committee on Energy and Natural Resources is proceeding with its planned field hearing on S. 1701, a bill to impose specific directives on the Bonneville Power Administration. Senators Jackson, Gorton, Baucus, and Symms, joined me in introducing this measure which is identical to section

317 of H.R. 3363, the Interior appropriation bill for 1984, which is currently pending before the Senate. The report accompanying H.R. 3363 contains language approved by the Senate Appropriation Committee providing limitations and directives intended to be imposed upon the Bonneville Power Administration.

In the past several months the media has focused a great deal of attention on the WPPSS situation and efforts mounted by myself and other Northwest Senators to develop a responsible means of maintaining the construction schedules in which there is a Federal interest by virtue of the agreement that BPA has with the project participants. These plants include WPPSS Nos. 2 and 3, as well as No. 1, although that plant is not of immediate concern.

It is important to differentiate the interests in these plants from the other WPPSS projects, 4 and 5, in which there is no direct Federal interest. I say direct, because we all must be concerned about the effect of recently announced default of WPPSS Nos. 4 and 5 on its, WPPSS meaning, ability to make payment on bonds issued with respect to those plants. That situation is of great concern, not only within the region for public entities seeking to finance capital expenditures, but for similar entities throughout the Nation. The effect the default has and will have on private investors, many of whom are private individuals, is a cause of alarm and concern among us all.

The special commission appointed by Governor Spellman addressing this problem hopefully will suggest a viable solution. However, as I said, this legislation does not attempt to solve that problem. It relates only to WPPSS Nos. 1, 2, and 3 in which the region and BPA have an interest in maintaining a viable option for sources of power. WPPSS No. 1 is currently in a preservation state. It is not anticipated to be needed until 1991 or later. WPPSS No. 2 is 98 percent complete and is scheduled to be operational in early 1984 and will begin generating power and revenue within that timeframe. WPPSS No. 3 is 78 percent complete and was scheduled to be complete in early 1986. However, the inability of WPPSS to obtain conventional financing due to the spillover effect of the problems with unit Nos. 4 and 5 has necessitated a rationale of activity for unit No. 3 eventually placing it in a preservation mode.

The forced decision to preserve unit No. 3 has immediate adverse consequences. Perhaps the foremost is the loss of 3,000 jobs in the State of Washington, which like other States in the Northwest, can ill afford more unemployment. Second, if no forseeable alternative to further financing of WPPSS 3 becomes available in the near term, experienced personnel needed to complete the plant may be lost. Third, if bond holders to the net-billed plants do not have reasonable assurance in the near future that their interests are protected through completion of the projects, the legal and investment climate may become one in which financing is even more difficult, expensive, or impossible.

We, the ratepayers of this region, must also be concerned about costs and consequences of not completing WPPSS 1, 2, and 3 as expeditiously as possible and at the least possible expense. None of us enjoy paying higher utility bills. However, we must assume a responsibility for debts which we rightfully owe. It is unavoidable that the investments in the net-billed plants are the responsibility of the region whether we like it or not.

Moreover, the 20-year power plan adopted by the Northwest planning council shows a need for all the net-billed plants within a decade. The current surplus will not last forever. Opportunities for the sale of any surplus exist and are being aggressively pursued. The lead time involved in powerplant construction is very lengthy. Unless a method to finance that construction is provided now, ratepayers may end up with the worst of all results—three dry holes, a multibillion dollar debt which they must pay, and a shortage of power.

At this point I would like to briefly summarize the combined effect of the proposed statutory language and the accompanying report language.

The statutory language clarifies BPA authority to enter into alternative financing agreements for construction of WPPSS No. 2 and No. 3. The financing alternative would utilize an appropriate entity or entities established pursuant to State law. Financing could be from bonds or notes or other evidence of indebtedness. The report language provides the following six directives and limitations under which BPA may use that authority.

First, a condition perceives that a schedule of construction of WPPSS No. 3 be agreed upon. Second, a directive that the authority be used in a prudent and businesslike manner. Third, a requirement that the effect of terms of financing on ratepayers be considered. Fourth, a prohibition on BPA incurring a liability for WPPSS No. 4 and 5 or the private ownership in WPPSS No. 3. Fifth, a requirement to consider new financing in respect to costs of other viable alternatives for generating resources and the cost of traditional financing through WPPSS. And finally, a requirement that the Appropriations Committees of the Senate and House receive all contracts proposed to be entered into 30 days prior to their execution. In addition, all costs associated with the agreement will be reflected in BPA budget submissions to the Congress. This proposal does not authorize BPA to seek appropriated funds, nor does it allow BPA to borrow funds from the Federal Treasury or any other source. In no way does it expend the full phase and credit of the U.S. financing agreements entered into by the BPA. The proposal will not authorize BPA to establish a new entity or entities referred to in section 3 of H.R. 3363 and in S. 1701. Such entity or entities must be established by a nonfederal party pursuant to State law.

I will conclude by stating that S. 1701 may not provide a total solution for the region. However, I believe it is an important first step which should be enacted. As other additional proposals are developed I will assist in implementing those which are reasonable, workable, and have a consensus of support. When I say consensus, I don't anticipate that any proposal will have unanimous support.

With that, let me state my appreciation for the efforts of Senator Gorton who is with us today, efforts that he has put forth in trying to find some way out of the morass in which we find ourselves, and out of the difficulties which confront all of this; his diligent effort in fact needs to be underscored. He has been constructive and helpful in every stage of the proceedings and I very much appreciate the attention he has given and I appreciate his appearance and his participation in these hearings here today.

Senator Gorton.

## STATEMENT OF HON. SLADE GORTON, A U.S. SENATOR FROM THE STATE OF WASHINGTON

Senator **Gorton**. Mr. Chairman, I would like to thank you for your efforts in helping to resolve the serious challenge presented by WPPSS to the people of the Pacific Northwest, a large portion of whom you represent, as I do here in the State of Washington. I particularly appreciate your willingness to have this hearing in Seattle where the maximum number of people and interests can conveniently express their views on a set of issues which will briefly impact them. I am particularly happy you have permitted me to be a part of the hearing of a committee of which I am not a member. I should also like to thank you for your understanding of the grief and sense of loss which all of us here in this State feel over Senator Jackson's untimely death. He was a great public servant. He heiped people across this State and across this country in ways that are far too numerous to detail. He was, for me, an example and wise counselor and a very, very good friend; we'll all greatly miss him. Senator Jackson played an active role in the very problems which have brought us here together today. He was extremely constructive in all of his suggestions and in this, as every other issue, in work which he considered to be the greater good for the people of this State.

Mr. Chairman, you have explained the purposes of the bill, or two identical bills, which are before the Senate of the United States at the present time, both their relationship particularly with WPPSS plant No. 3 and the fact that they do not attempt to deal in any respect with the problems created by Nos. 4 and 5. You originally drafted that legislation and the two Senators from the State of Washington joined with you on it in order to begin at least constructive dialog toward the solution of the problems that face us at the present time.

I must say as a nonmember of your committee, when we had a hearing on the third of August in Washington, D.C. I was stunned by the testimony of the Managing Director of WPPSS which showed the costs of schedules and financing data for Plant Nos. 1, 2, and 3, the net-billed plants. It has now incurred $6 billion of debt in connection with these plants. Beginning on November 1 of this year the rate structure imposed by the Bonneville Power Administration on their customers will include a $618 billion a year payback of that debt and interest on that debt. That payment will continue for the next three decades. So, the question which you are attempting to deal with in this legislation, which all of us joined together in attempting to solve, is whether or not we will be paying $618 billion a year for nothing or whether or not we can devise some method by which some income can come into the Northwest to defer or defray those costs which are already being imposed upon us. In fact, there is a modest additional cost added by BPA which will allow the completion of plant No. 2 out of current income. The Bonneville Power Administration told us of no further additions, though certainly a lengthening would be necessary to provide for financing for the completion, not only of plant 2, but of plant 3 as well.

As a consequence, the principal issue with which we are dealing here, and I speak to all of those in the audience today, is what we do from here on rather than recriminations about the past. Is it prefrable for the people of this State and for the Pacific Northwest to make the investment necessary to complete plants 2 and 3, that is to say the amounts of money necessary to complete them in the future, and to utilize that power here by sale to California or other; or is it preferable for the people of this State and this region to walk away from one or more of those net-billed plants and pay for whatever is already invested in them in any event?

We will, of course, hear today I'm sure, comments on the debts. This bill does not propose or purport to deal with those, but obviously they are part of the overall issue here. The committee headed by Senator McClure and the rest of the delegation from these States are waiting to hear from the Luce Commission, listen to their suggestions and hope they are suggestions which will commend themselves to many people in this area.

Quite bluntly, the fundamental solution to these problems rests in the people of the Pacific Northwest and particularly in the State of Washington. A practical matter neither here nor in Washington, D.C., will be able to come to a conclusion, will there be any attempt to impose a conclusion which is not supported by the broad consensus of opinion here in this State and in the other States of the Pacific Northwest which are affected by WPPSS? We want this to be a constuctive step toward reaching the consensus. We have suffered, in this part of the world, a terrible disaster in connection with all of the WPPSS project. We are now attempting as diligently as we can to lessen the impact of that disaster, not felt across the country on municipal bonds as much as in in connection with the future economy of our people here in the Pacific Northwest.

I believe this bill to represent a constructive step in that direction. But I seek, as do all of the other members of the congressional delegation from this part of the world, suggestions of people of interest groups across the four States involved. Senator Jackson, at the time of the hearing on August 3 on this WPPSS legislation made the following statement:

> The fundamental purpose of the legislation before the committee is to prevent a $2 billion disaster, referring to WPPSS 4 and 5, from becoming an $8 billion disaster from which the Northwest municipal bond market might not recover for decades. It only makes sense to complete these projects so that they can generate electricity and revenue through power sales to help retire the debts incurred.

I hope, and I am confident, that those of you who testify before us today will help us diligently to find a solution to these most difficult problems.

Thank you, Mr. Chairman.

The **CHAIRMAN**. Thank you very much.

We are pleased to welcome with us Congressman Chandler.

I would state at the outset that I am not at all surprised by the interest which has been expressed by individuals on the subject matter and in this hearing, and am not surprised that so many have asked an opportunity to testify. I never like to restrict the time available to witnesses, but if we are to complete the witness list today, we are going to have to ask witnesses to present their statements, and to limit their oral testimony to no more than 5 minutes. The complete written statement will be placed in the record at the appropriate place and the record will be complete and contain all of the remarks of each of the individual witnesses. But, if we are to be able to hear everyone and give as much attention and time to those that are at the end of the witness list as given to those at the beginning, we are going to have to ask that the testimony be limited in that manner.

Governor Spellman has expressed his interest in these hearings. As you know, he has been working diligently with a number of interested parties to try to find solutions to a number of the issues that are confronted by the region with respect to the WPPSS problem. However, it is not his desire to testify today. He has indicated that he will follow very closely what is said by each of the witnesses here today and will continue to try to find solutions to the problems that confront us.

Somebody asked me recently: "Senator, why are you getting involved in this, you don't have to." Well, I think it's too large a problem not to be involved in. There are, within the walls of this room today, diverse opinions which certainly underscore the difficulty we have in trying to find answers that will be acceptable to at least some. It is far too easy, I believe, for many of us in political office to duck the issues that are involved, hoping that nothing will happen until everybody is in agreement and we don't have to make anyone unhappy. I suspect that if we wait for that kind of unanimity we could well wait a long, long time.

In the meantime, the region will only suffer. But the purpose of this hearing is to hear the testimony of those who do have an interest, and who believe they can aid the public dialog and public understanding for necessary resolution of the problems that confront us. And we will, in the course of this day hear diametrically opposed opinions, sometimes passionately expressed by those who feel very strongly about the issues involved. I hope all witnesses, and all persons present who are not witnesses but are simply interested, will respect the right of each person to express his view, whatever that view may be. That's the nature of our country in which people with strongly held views and strongly opposing views will have opportunity to express themselves, and I hope that each of us will accord others the opportunity to give that expression of their views no matter how we may individually feel about what is being said. That will be a constructive addition to our record if we can proceed in that manner and thus have perhaps a better understanding of the conflicting views, the various points of view, and the various people who will appear and testify here today.

Our leadoff witness today is a gentleman who is not a stranger to this group nor unfamiliar with the issues, and who does have strongly held views. We call on Congressman Jim Weaver.

## STATEMENT OF HON. JAMES WEAVER, A U.S. REPRESENTATIVE FROM THE STATE OF OREGON

Mr. **Weaver.** Welcome to the committee today, Mr. Chairman. Thank you very much for inviting me today to discuss this topic, and its overriding interests.

First of all I want to say what a great loss the Northwest has in the death of Senator Jackson. No matter how bitterly we disagreed on issues, he was always ready to put his arm around you shoulder in friendship. We will all miss him.

As you know, I have long been an opponent of the plan to have WPPSS build five nuclear powerplants. The issue was not nuclear; it was the cost and needs of the plants, if they be solar or whatever. When this plan was developed by BPA and others in 1970. I opposed it for the grounds that the plants were not needed and that their enormous cost would drive up power rates in the Northwest and consequently drive down regional consumption of electricity resulting in power surpluses. I recommended that BPA instead pursue less costly needs of balancing electric loads with such things as conservation and geothermal.

It's a scandal that the billions of dollars poured down the rat hole of WPPSS, not one penny has been spent developing the great indigenous resources of the Northwest of geothermal. It's just incredible that that sort of thing has happend. Well, the lights haven't gone out, even though the WPPSS plant have yet to produce one kilowatt of electricity. In fact, the Northwest has a substantial surplus of power. Nevertheless, the energy moguls are trying to compel the Northwest ratepayers and taxpayers to bear the cost of completing WPPSS 3 whether it is needed or not, whether it is cost effective or not. I strongly oppose this effort and predict that it will fail.

The proposals that we are discussing, the bills before us, originating with the four Northwest investor-owned utilities, own a 30-percent ownership share of WPPSS No. 3. They simply want to be able to force on their own customers the cost of these plants because under Oregon law, at least, they are not allowed to put into their rate base the cost of uncompleted plants.

Unless WPPSS 3 is completed by PT&E and PP&L, they cannot make their ratepayer pay and that's what they want to do, that's their motive in doing this, and it is not in the interest of the people of the Northwest. It is this potential loss of PT&E and PP&L that is driving this proposed legislation. They do not want to use the $400 million they now have.

I have set forth, Mr. Chairman, 20 questions about how this legislation would fail to achieve even its apparent goals. These appeared in the Congressional Record of July 1, 1983, and now 2 months later none of them have been answered. I will go over a few and appreciate my full testimony being inserted into the record.

Some of the questions are, would super-WPPSS be able to issue tax-exempt bonds. There has been no answer. Would super-WPPSS, which would have to deal directly with project contractors and suppliers and laborers, be required to obtain a new construction permit from the Nuclear Regulatory Commission. No one has been able to answer that. It could be delayed months and years if that were the case, and probably is. Would any restart of construction by super-WPPSS require new cost-effectiveness studies, under the agreements worked out under initiative 394, most likely.

Could super-WPPSS proceed with completion of WPPSS No. 1 in addition to WPPSS No. 3 regardless of cost and add another $2½ billion to the burden of debt already crushing the Northwest. There has been no answer. Could super-WPPSS proceed with completion of WPPSS 3 in this regard with WPPSS No. 3 participants. There has been no answer to that. The Senate report language placed the decision in the hands of the project owners. Yet the publicly owned participants responsible for 70 percent of WPPSS 3 are not defined as owners in the contract. Would super-WPPSS impair the Federal interest in the projects. The Senate report language referred to the Federal interest in the three net-billed projects.

If BPA were unable to raise revenues that's enough to pay existing obligations plus its new commitment to super-WPPSS, could the creditors of super-WPPSS send out the entitlement to the outfit of WPPSS 3, thereby impairing BPA's right to the power. It's a very serious question, and there have been no answers. Where would super-WPPSS get any money to spend on construction. Who would lend to super-WPPSS. There has been no answer. Would anyone, not cautious enough to lend to super-WPPSS, obtain a security interest in WPPSS 3, in the other WPPSS projects. There has been no answer.

Would super-WPPSS impair the rights of existing WPPSS 4 and 5 bondholders by shielding the other assets of WPPSS from attachments, thereby directing bondholders to satisfied judgments they may obtain by the securities for obligation in the eyes of WPPSS 4 and 5 participants? There has been no answer. Perhaps, some of these questions could eventually be answered, but they have not been now. In all due respect, I hear the term "broad consensus" is necessary to pass this legislation; the broad consensus that I have heard is that of the utility groups, if they come around, but the broad consensus is what is absolutely essential is a majority of the people who have to pay. [Applause.]

The CHAIRMAN. I would hope that we would have a minimum of that kind of response during the day. It is a delay and does not add to the record.

Mr. WEAVER. This legislation was forced down the throats of the people, more debt without their consent. At least give them a vote, if you demand that they pay. This legislation would increase the burden of debt on the Northwest and make it harder for State and local governments here to borrow for schools. Why isn't BPA, which is eager to borrow millions for No. 3? They cannot and will not borrow funds, much smaller funds for conservation. Why is the Northwest Power Act of conservation provisions being undermined and violated while the eagerness to borrow money to complet No. 3 is there?

As expected, WPPSS and BPA asserted that after pouring billions of dollars into WPPSS 3, the project must be cost effective to complete. I viewed those assertions skeptically at hearings before my subcommittee on June 10th. The Northwest Power Planning Council testified that WPPSS No. 3 would be cost effective to complete, but the analysis offered there was not looking at only post '93 costs, assuming that the construction stayed on schedule which it has not of course.

An additional $250 million or so has already been expended during 1983. I would like to say, Mr. Chairman, also that the newspaper reports constantly say that the WPPSS 3 cost will be $1 billion in addition. They will be at least $2 billion. The agreed cost if $1.4 billion and an additional $600 million on interest bearing on that amount during construction, and this is before the project was rammed down our throats and the start-up cost would be much greater than that. It's $2 billion at least to complete No. 3. The people of the Northwest have never had the opportunity to decide themselves whether WPPSS projects should be built and have never agreed to pay for them, and they should be given the opportunity, if any legislation passes. It should at least include the right of the people to vote if they are going to go into debt and everybody says, "We must pay our obligations."

Finally, I would like to raise one point, Mr. Chairman, that has not been raised before. This bill would simply pour more money into the black hole of WPPSS. The 4 and 5 bondholders are still on the scene with their securities and lawsuits. If WPPSS must pay judgments to these bondholders, where will WPPSS get the money. WPPSS remains the owner of WPPSS No. 2 and 70 percent of 3. BPA's rights to those plants depend on the authority of one, two, and three participants to have executed the participant agreements, initio nova for the Ninth Circuit Court of Appeals.

In the end, WPPSS would be forced to sell the plants in order to pay the No. 4 and No. 5 bondholders, leaving BPA with nothing except a new competitor for power sales to California. This legislation does not protect the assets of WPPSS No. 3 from the 4 and 5 bondholders. It only assures that there will be more of WPPSS No. 3 for the bondholders to attach and liquidate and satisfy judgments against WPPSS. What would happen if the 23 members of WPPSS begin a drawing to escape the liability, the potential liability of WPPSS, and suddenly, you have no WPPSS corporation as well that is forced into liquidation? These are simply some of the many questions that remain unanswered, Mr. Chairman, and I think if we ever do have legislation, we can have some that answers these and the many other questions involved and give the people the right before they are obligated to pay.

Thank you very much, gentlemen.

[The prepared statement of Mr. Weaver follows:]

# TESTIMONY OF

# U.S. REPRESENTATIVE JIM WEAVER

Chairman, House Interior Subcommittee on
Mining, Forest Management, and the Bonneville Power Administration

ON

# LEGISLATION AIMED AT RESTARTING WPPSS 3

Before the

Committee on Energy and Natural Resources
United States Senate

September 9, 1983
Seattle, Washington

We are here today to discuss a topic of importance for all Northwest electricity ratepayers and taxpayers. I thank you for inviting me to appear.

As you know, I have long been an opponent of the plan to have WPPSS build 5 nuclear plants. When this plan was developed by BPA and others in the 1970s, I opposed it on the grounds that the plants would not be needed and that their enormous costs would drive up power rates in the Northwest and consequently drive down regional consumption of electricity, resulting in power surpluses. I recommended that BPA instead pursue less costly means of balancing electricity loads and resources, such as conservation and the development of renewable resources native to the Northwest, such as geothermal energy. It is a scandal that, while BPA has been spending billions of dollars on these nuclear projects, not one cent has been available for geothermal development. I was then severely criticized for offering such advice; the Northwest power moguls threatened to blame me if the lights went out in the region due to an insufficient supply of electricity.

Well, the lights haven't gone out, even though none of the WPPSS projects has yet to produce one iota of power. In fact, the Northwest now has a substantial surplus of firm power, in addition to the nonfirm surplus energy available except during severe droughts. Nevertheless, the energy moguls are now trying to compel Northwest ratepayers and taxpayers to bear the cost of finishing WPPSS 3, whether or not it is needed or would be a cost-effective element of the region's power supply. I strongly oppose this effort and predict that it will fail, because the people of the Northwest are now aware of what's going on. They do not want to be shackled by more WPPSS bondage and certainly do not want a Super-WPPSS to take over from WPPSS and extend the debacle.

The proposals we are discussing, S.1701 and Section 317 of the present version of the Interior Appropriations bill before the U.S. Senate, originated with the four Northwest investor-owned utilities holding a 30% ownership share in WPPSS 3. Unsatisfied with BPA's decision to ramp down construction, these utilities want to finish WPPSS 3 regardless of its cost and notwithstanding the region's firm power surplus. This is particularly important for Portland General Electric Co. (PGE) and Pacific Power & Light Co. (PP&L), each of which owns a 10% share of WPPSS 3. Under the terms of an Oregon statute enacted by initiative in 1978, these utilities cannot charge the costs of these plants to ratepayers until they are put into service. If the plant is not finished, PGE and PP&L stand to lose the $400 million they have already sunk into WPPSS 3. That's why they are pushing this legislation, not because WPPSS 3 is a good project or would be cost-effective to complete.

I oppose this legislation for two different sets of reasons. First, I do not believe that these hastily-drafted provisions would accomplish the intexded purpose of rapidly restarting WPPSS 3 in any sort of "prudent" manner. And second, I am not persuaded that any more money should be devoted to WPPSS 3, both because its cost-effectiveness has not been dexonstrated and because the people of the Northwest--who are expected to pay the bills, of course--have never been consulted and have never approved this project or any of the nuclear power plants planned for them by the Northwest powe establishment.

I have no reason to believe that S.1701 or Section 317 would accomplish the intexded purpose of rapidly restarting WPPSS 3. When Section 317 was first introduced as an amendment to the Interior Appropriations bill before the Senate Appropriations Committee, I set forth 20 questions about how the provisions would operate. These appeared in the Congressional Record of July 21, 1983 (H5462-65). Now, nearly two months later, these questions have not been answered. So now I will ask just a few of them again:

1. Would Super-WPPSS be able to issue tax-exempt bonds, or would the cost of financing be increased by the fact that interest would be subject to federal and state income taxes? NO ANSWER.

2. Would Super-WPPSS, which would have to deal directly with project contractors, laborers and suppliers, be required to obtain a new construction permit from the Nuclear Regulatory Commission? NO ANSWER. If so, how many months or years would this take?

3. Would any restart of construction by Super-WPPSS require a new cost-effectiveness study under the terms of the settlement agreement between WPPSS and the State of Washington in which the State agreed not to seek U.S. Supreme Court review of the 9th Circuit Court of Appeals' decision that Initiative 394 was unconstitutional? If a new cost-effectivexess studd is required, it would take several months to perform competently, reviewing all of the new developments, including the fact that the WPPSS 3 workforce is gone and would have to be reassembled. If such a study is not required under the settlement agreement, then Super-WPPSS would remain subject to the provisions of Initiative 394, because the courts ruled it unconstitutional only as it impaired preexisting contracts. Super-WPPSS has no preexisting contracts.

4. Could Super-WPPSS proceed with completion of WPPSS 1 in addition to WPPSS 3, regardless of cost, and add another $2.5 billion or more to the burden of debt already crushing the Northwest? NO ANSWER.

5. Could Super-WPPSS proceed with completion of WPPSS 3 in disregard of the WPPSS 3 participants? NO ANSWER. The Senate report language would place the decision in the hands of the project owners, yet the publicly-owned utility participants responsible for 70% of WPPSS 3 are not defined as owners in the contractual arrangements.

6. Would Super-WPPSS impair the "federal interest" in the projects? The Senate report language refers to the "federal interest in the three net-billed WPPSS projects." If BPA were unable to raise revenues fast enough to pay its existing obligations plus its new commitments to Super-WPPSS, could the creditors of Super-WPPSS somehow gain entitlement to the output of WPPSS 3, thereby impairing BPA's right to that power? NO ANSWER.

7. Where would Super-WPPSS get money to spend on construction? NO ANSWER. BPA already claims to unconditionally guarantee repayment of principal and interest on any new WPPSS bonds, but Wall Street wants no part of such bonds. Rumors have circulated that some New York banks would lend money to Super-WPPSS, but no commitments have been forthcoming.

8. Would anyone incautious to lend to Super-WPPSS obtain a security interest in WPPSS 3? in the other WPPSS projects? in WPPSS revenues from net-billing payments? in BPA revenues? in the U.S. Treasury? NO ANSWER.

9. Would Super-WPPSS impair the rights of existing WPPSS 4/5 bondholders by shielding the other assets of WPPSS from attachment, thereby directing bondholders to satisfy judgments they may obtain in the securities fraud litigation from the hides of the WPPSS 4/5 participants? NO ANSWER.

Perhaps some of these questions could eventually be answered. Even so, I oppose the proposed legislation because it would impose upon Northwest ratepayers and taxpayers an enormously expensive project with no proof of its cost-effectiveness and without any approval of the people extected to pay the bills. Where is the broad consensus for this legislation? The only consensus is among the heads of the investor-owned utilities. Can't you at least give the people of the Northwest an opportunity to vote on whether these projects should proceed?

This legislation would also have adverse consequences for the Northwest. It would increase the burden of debt and make it harder for state and local governments here to borrow for schools, hospitals and other public projects, thereby decreasing jobs and increasing the drain of capital out of the region. Wall Street knows the Northwest is financially strained, thanks to WPPSS. This legislation would only increase the strain and crowd out borrowing for other public purposes.

And why is BPA eager to borrow more billions of dollars for WPPSS 3 yet will not obtain the funds necessary for the conservation programs mandated by the power plan of the Regional Council? BPA told the Council this week that it could not necessarily implement 74 of the 96 conservation actions in the Council's plan because it could not borrow $50 million from the U.S. Treasury to do so. Where are our priorities? Why is the Northwest Power Act being deliberately violated and undermined? The proposed legislation would make the situation worse.

As expected, WPPSS and BPA assert that, after pouring billions of dollars into WPPSS 3, it must be cost-effective to complete. I view their assertions skeptically. Earlier they claimed that WPPSS 3 construction should continue because it would be too expensive to shut the project down and start it up again later. But now that has already happened. I have also questioned the assumed interest rates and other input assumptions in the BPA analyses, but I leave detailed critique to the economists.

At hearings before my Subcommittee on June 10, the Northwest Power Planning Council testified that WPPSS 3 would be cost-effective to complete. But the analysis offered there was looking only at post-1983 costs, assuming that construction had stayed on schedule and an additional $250 million or so had already been expended during 1983. Nor did that analysis include additional interest during construction or other costs that ratepayers would actually have to bear. And it should be clarified that there would be an additional $2 billion to spend on WPPSS 3, not the $1 billion so often mentioned in the press. It would cost at least $1.4 billion for construction to completion, plus another $600 million to pay interest during construction on the additional amount borrowed. WPPSS has agreed that this analysis is correct.

Finally, this bill would simply pour more money into the black hole of WPPSS. The 4/5 bondholders are still on the scene with their securities fraud lawsuits and direct legal actions against WPPSS as an entity. If WPPSS must pay judgments to these bondholders amounting to billions of dollars, where will WPPSS get the money? WPPSS remains the owner of WPPSS 2 and 70% of WPPSS 3. BPA's rights to these plants depend upon the authority of the 1/2/3 participants to have executed the participants' agreements, an issue now before the 9th Circuit Court of Appeals. In the end, WPPSS could be forced to sell the plants in order to pay the 4/5 bondholders, leaving BPA with nothing except a new competitor for power sales to California. This legislation would not protect the assets of WPPSS 3 from the 4/5 bondholders. It only ensures that there will be more of WPPSS 3 for the 4/5 bondholders to attach and liquidate to satisfy judgments against WPPSS. And what happens when the 23 utility members of WPPSS itself begin to withdraw from the organization and WPPSS itself collapses?

In sum, I continue to oppose spending more on WPPSS without the consent of the people of the Northwest. Neither BPA nor WPPSS nor this Senate Committee can obligate the people of the Northwest to pay for al ill-fated boondoggle they have never been asked to approve.

The Chairman. Thank you very much, Congressman.

Senator Gorton. Congressman, do you have a suggestion or set of suggestions you could introduce now?

Mr. Weaver. Oh, sure, we should, and I have said the same thing now for 10 years and years ago I said, don't put one penny into these projects. Nine years ago I said don't put one penny in, and I have said that every year and ever since then, let's not put one more red cent into this rat hole.

If you do build No. 3, and No. 2, it is just going to mean more surplus power, driving electric rates down, and we will actually get less revenues. In other words, if you bring out two more thousand megawatts of electricity, increasing the surplus, then California is really going to take us to the cleaners and make us give it to them as we are now. In other words, the more electricity we produce in the present surplus situation, the lower the rates will be and the less revenues we actually get.

It's a very dangerous situation and one that cries out for keeping our electric bills low in the Northwest and conservation. Conservation means jobs today, and it means savings to each and every person in their utility bills, if we can expand other businesses and make them more viable to the economy in the Northwest. I have said all along that what WPPSS will do is drive capital out of the Northwest, suck it out, suck jobs out, suck purchasing power out, and leave us wrecked for the generation and that's exactly what's happening in this legislation, and completion of WPPSS plant 3 will make it worse.

Senator Gorton. Who should make that decision, the Congress or the people out here?

Mr. Weaver. I would love to have the Congress authorize an election, so the people make the decision. They should be the ones to decide. [Applause.]

The Chairman. Concerning that, again, you don't add a thing to the record by interrupting the witness for applause or catcalls. We will have a great opportunity during the day to have both, and I expect the temptation will be there during the day, but it does not add to the record; it does not help us resolve the problems.

Senator Gorton. I should like to thank Congressman Weaver.

Mr. Weaver. Thank you, Mr. Chairman.

The Chairman. We will next hear from the members of the House of Representatives of the State of Washington and from the State Senator, J. T. Quigg, and I understand that Senator Max Benitz is not here, but represented by Barry Beatty and we have the Honorable Richard Nelson, member of the House of Representatives. These three persons please come forward.

## STATEMENT OF J. T. QUIGG, WASHINGTON STATE SENATOR

Senator Quigg. Thank you, Chairman McClure, Senator Gorton. I am State Senator J. T. Quigg from Aberdeen.

The problems of the Washington Public Power Supply System have created chaos in our area and an uncertainly about any solution. For the last months the effort to reach any type of solution has become fragmented and disjointed. There seems to be no consensus in our region to even identify the goal we are seeking. All that has been heard are critical comments against any discussion of a solution and the common tenner that the supply system is in such a crisis over the termination of projects 4 and 5, the mothballing of projects 1 and 3, the uncertainty about operating project 1, and the seemingly endless litigation to be resolved in the future, no one knowing what to do or wanting to do anything.

The lack of cooperation to define what goal is being sought in solving these problems is frustrating and unacceptable to me. The PUB's of our State cannot speak unitedly for what they want. The supply system's administrative and executive structure is fragmented and cannot agree. The investor-owned utilities are uncertain and the other municipals and cooperatives are over-cautious about pursuing a solution. Even the BPA vascillates at any suggested resolution that involves them. The State legislature in its last session failed to responsibly confront the problems of the supply system, or work on a solution or provide any leadership.

No one is taking the initiative and sparking a positive solution within the region. Everyone is busy worrying about the complexities of the problems or the implications of a solution for them individually. No one wants to consider possible alternatives. What we have is a gathering of involved participants and interests who are meekly waiting for something to be done, but fearful if anything is done. This passive activity continues to be dominated by criticism instead of problem solving and consensus building.

I applaud you, Mr. Chairman, the sponsors to this legislation, and the U.S. Senate Committee on Energy and Natural Resources for taking the initiative and providing the spark for a solution in S. 1701. I firmly believe WPPSS projects 1, 2, and 3 are assets this region and its citizens cannot afford to throw it away. I also believe there is and will be a demand for the energy generated by plants 4 and 5 and these terminated projects will eventually be finished.

The legislation being scrutinized this morning is far from a total solution to the problems of WPPSS and the region, as you said. It represents a partial solution, but a partial solution that can be used as a magnet to attract other solutions. The most important component of this bill in my mind is that it will get things moving and this movement will eventually build that necessary consensus to solve the total problems.

It is imperative the U.S. Senate not throw up its hands and stop working for a solution like the Washington Legislature did this last session. To just quit, to me, is unthinkable. This is not a responsible or realistic position to maintain and is not an alternative. The problems of WPPSS are not going away. They are going to have to be confronted and solved. It's been said that the price of success is paid early, and the price of failure is paid late. Either way, we are going to pay the price. I'd just as soon pay the price of success and be gone with it right now. Something creative has to be found and someone is going to have to find it. The solution will cost everyone, maybe a little or maybe a lot, but the process toward a solution has to be activated, and that is what we are going today with your legislation.

I do not know what the total solution will be at this time, but the process has to be continued with whatever possibilities are offered. The legislation before us may not be the total answer, but it should be pursued and used as a lightning rod for constructive amendments and revisions. Senate bill 1701 does keep some of WPPSS's nuclear plants on line for completion and is a viable idea I support. Without any other alternative or total remedies being offered, I urge you in the U.S. Senate to take command and work to push this bill through Congress.

The idea of involving the Bonneville Power Administration in the financing formula for plants 2 and 3 is not without its problems. The present obligations of BPA need to be carefully reviewed and some priority established to how these obligations are going to be met. Authorizing BPA to become involved also takes some of the control of the two nuclear plants benefiting from this legislation out of the hands of WPPSS and the immediate Northwest region. Another problem could develop with the designation of the new financing entity to replace WPPSS. I foresee a tenuous and difficult path for this entity in the Washington State Legislature. The present odds are not very good for its designation. Many of my fellow legislators remain unwilling to even consider entering into the process for a solution and fear any action on the legislature's behalf would involve State liability in these nuclear plants if the solution is not permanent or feasible. It's a situation in which your legislature would rather not involve itself in the problems because the hole is in the other end of the boat, not in their end and, therefore, it is not their concern. I think that kind of shortsightedness will create a tragedy, or certainly headed in that direction, if we don't turn it around.

It is also difficult at this time to consider a solution without confronting the fiasco surrounding projects 4 and 5. Our State supreme court's decision indicating the public participants were authorized to contract with WPPSS for power capability was a travesty and needs to be reviewed. The great variety of security fraud suits should be combined and resolved. The question of project-by-project bankruptcy protect the assets of active projects also requires further consideration before any additional bonds, no matter who the financing entity may be, can be sold. The assaults on the net billing agreements represent another component to be scrutinized. All of these variables need to be discussed and included in a total solution and could be investigated if you're are able to keep S. 1701 alive and progressing through Congress. Without such a lightning rod, these and other creative ideas cannot be pursued.

I believe there are a number of creative ideas that can help all participants and interests involved in the problems of WPPSS. One idea I am working on and would like to bring to you this morning would put a new market and new financing opportunity into the WPPSS picture. This alternative looks beyond the limited energy demand market of the Pacific Northwest and into the international market, specifically the Pacific-Rim community. The problems of WPPSS are bigger than the Pacific Northwest and require a more extensive solution. There is a demand for the energy of the WPPSS plants in the Pacific-Rim community and the State of Washington is ideally located to participate in a solution that could potentially finish all five WPPSS nuclear projects and benefit foreign trade as well.

The Asian members of the Pacific-Rim community are facing rapidly escalating energy costs, shortages of raw materials, and increasing protectionism. And speciality steel, the motorcycle provisions that have passed, and full page ads by major industrial unions in daily papers across the country for further protection of the measure. Movement is already being made by the nations of Taiwan, Japan, and Korea to confront these problems, meet increasing demands, and stabilize power costs by constructing nuclear plants.

The solution I am pursuing would attract the investment of these nations into the completion of some or all of the WPPSS facilities. By assuming total or partial ownership of one of our State's nuclear facilities, these Western Pacific nations could have a guaranteed source of energy at a cost less than what they would absorb in building their own nuclear facilities, presently planned to come in line in the next 10 to 20 years.

The CHAIRMAN. Your time has expired. I wonder if you could summarize.

Senator QUIGG. The summary, Mr. Chairman, you will have copies of this testimony, and you will be receiving more detailed copies of the solution to this proposal. These are nations that are building more expensive plants than these plants here today. They are long-time trading partners. It's a mutual interest of ours to see to it they are no longer dependent on OPEC for such a tremendous amount of energy. They are presently importing about $80 billion worth of oil a year to those economies. If they can just place a mere couple of billion a year as an investment in these plants in this region, the trade and economic stability opportunities for our partners in the Pacific-Rim are spectacular. Our debt can be offset by these nations, and we can actually find increasing employment, not only in the construction of plants or conservation of things to do, but also in the projects that come up around these plants as those nations reverse the debt in the Pacific Northwest to meet not only their needs at home and those kinds of energy projects, but in the United States as well.

[The prepared statement of Senator Quigg follows:]

TESTIMONY BEFORE THE UNITED STATES SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES: SENATOR JAMES McCLURE, CHAIRMAN .

September 9, 1983
Seattle, Washington

Good morning Mr. Chairman, Ladies and Gentlemen. I am State Senator J.T. Quigg from Aberdeen.

The problems of the Washington Public Power Supply System have created chaos in our area and a great uncertainty about any solution. For the last months the effort to reach any type of solution has become fragmented and disjointed. There seems to be no consensus in our region to even identify the goal we are seeking. All that has been heard are critical comments against any discussion of a solution and the common tenner that the Supply System is in such a crisis over the termination of projects four and five, the mothballing of projects one and three, the uncertainty about operating project one, and the seemingly endless litigation to be resolved in the future, no one knows what to do or wants to do anything.

The lack of cooperation to define what goal is being sought in solving these problems is both frustrating and unacceptable to me. The Public Utility Districts of our state cannot speak unitedly for what they want. The Supply System's administrative and executive structure is fragmented and cannot agree. The Investor Owned Utilities are uncertain and the other municipals and cooperatives are over-cautious about pursuing a solution. Even the Bonneville Power Administration vascillates at any suggested resolution that involves them. The State Legislature in its last session also failed to responsibly confront the problems of the Supply System, work on a solution or provide any leadership.

No one is taking the initiative and sparking a positive solution within the region. Everyone is busy worrying about the complexities of the problems or the implications of a solution for them individually. No one wants to consider possible alternatives. What we have is a gathering of involved participants and interests who are meekly waiting for something to be done, but fearful if anything is done. This passive activity continues to be dominated by criticism instead of problem solving and consensus building.

I applaud you, Senator McClure, and the United States Senate Committee on Energy and Natural Resources for taking the initiative and providing the spark for a solution in Senate Bill 1701. I firmly believe WPPSS projects one, two and three are assets this region and its citizens cannot afford to throw away. I also believe there is and will be a demand for the energy generated by plants four and five and these terminated projects will be eventually finished.

The legislation being scurtinized this morning is far from a total solution to the problems of WPPSS and the region. It represents a partial solution, but a partial solution that can be used as a magnet to attract other solutions. The most important component of Senate Bill 1701 in my mind is that it will get things moving and this movement will eventually build a consensus to solve the total problem.

It is imparative the United States Senate not throw up its hands and stop working for a solution. Many forces in the State of Washington believe the right solution is to just quit. This is not a responsible or realistic position to maintain and is not an alternative. The problems of WPPSS are not going away. They are going to have to be confronted and solved. Something creative has to be found and someone is going to have to find it. The solution will cost everyone, maybe alittle or maybe alot, but the process toward a solution has to be activated.

I do not know what the total solution will be at this time, but the process has to be continued with whatever possibilities are offered. The legislation before us may not be the answer in its present form, but it should be pursued and used as a lightening rod for constructive amendments and revisions. Senate Bill 1701 does keep some of WPPSS's nuclear plants on line for completion and is a viable idea I support. Without any other alternatives or total remedies being offered, I urge you in the United States Senate to take command and work this bill through Congress.

The idea of involving the Bonneville Power Administration in the financing formula for plants two and three is not without its problems. The present obligations of BPA need to be carefully reviewed and some priority established to how these obligations are going to be met. Authorizing BPA to become involved also takes some of the control of the two nuclear plants benefiting from this legislation out of the hands of WPPSS and the immediate northwest region. Another problem could develop with the designation of the "new financing entity" to replace WPPSS. I foresee a tenuous and diffiuclt path for this entity in the State Legislature. The present odds are not very good for its designation. Many of my fellow legislators remain unwilling to even consider entering into the process for a solution and fear any action on the Legislature's behalf would involve state liability in these nuclear plants if the solution is not permanent or feasible.

It is also difficult at this time to consider a solution without confronting the fiasco surrounding projects four and five. Our State Supreme Court's decision indicating the public participants were unauthorized to contract with WPPSS for power capability was a travesity and needs to be reviewed. The great variety of security fraud suits should be combined and resolved. The question of project-by-project bankruptcy to protect the assets of active projects also requires further consideration before any additional bonds, no matter who the financing entity may be, can be sold. The assaults on the net-billing agreements represent another component to be scrutinized. All of these variables need to be discussed and included in a total solution and could be investigated if you are able to keep Senate Bill 1701 alive and progressing through Congress. Without such a lightening rod, these and other creative ideas cannot be pursued.

I believe there are a number of creative ideas that can help all participants and interests involved in the problems of WPPSS. One idea I am working on would bring a new market and new financing into the WPPSS picture that has been so far overlooked in finding a total solution. This alternative looks beyond the limited energy demand market of the Pacific Northwest and into the international market, specifically the Pacific-Rim community. The problems of WPPSS are bigger than the Pacific Northwest and require a more extensive solution. There is a demand for the energy of the WPPSS plants in the Pacific-Rim community and the State of Washington is ideally located to participate in a solution that could potentially finish all five WPPSS nuclear projects and benefit foreign trade.

The Asian members of the Pacific-Rim community are facing rapidly escalating energy costs, shortages of raw materials and increasing protectionism. They are highly dependent on OPEC as a fuel provider and surely want to become more energy self-sufficient. Movement is already being made by the nations of Taiwan, Japan and Korea to confront these problems, meet increasing demands and stabilize power costs by constructing nuclear plants.

The solution I am pursuing would attract the investment of these nations into the completion of some or all of the WPPSS facilities. By assuming total or partial ownership of one of our state's nuclear facilities, these nations could have a guaranteed source of energy at a cost less than what they would absorb in building their own nuclear facilities. Let briefly outline my proposal further using Taiwan as an example.

Taiwan is seventy percent dependent on oil imports for its energy. At the present time Taiwan has two operating nuclear plants and one plant under construction. A total of eleven nuclear plants are projected to be built by the year 2000 in the country by TAIPOWER. The construction costs of these plants have been alittle over $1.5 billion for each 650 megawatt facility. The price of this nuclear generated power is currently $.75 for users of less than 500 KWH and $.32 for users of over 500 KWH. The estimated price for 1990 when four more plants are to be completed is $.90 for the smaller users and $.51 for the larger users. If instead of proceeding in the construction of these plants, TAIPOWER could assume an interest in or ownership of one of the uncompleted WPPSS plants,which could provide power at a cost of between $.18 and $.35,their investment would be cost-effective and to their benefit. The scenario would then continue with Taiwan establishing an industrial area, made up of manufacturing and processing facilities they would construct or be constructed through other financing sources, in the vicinity of one of the WPPSS plants. These manufacturing facilities would produce products which are energy intensive and export them back to their own country or integrate these products into the competitive North American market, thus avoiding previous shipping costs.

Taiwan would benefit by exporting the energy from one of more of the WPPSS plants in the form of products requiring a great amount of energy to manufacture in their own country. The State of Washington would benefit from the substantial employment force and jobs needed to complete a nuclear plant and to manufacture new products. WPPSS would benefit by completing its projects and having power being generated. The present bondholders could be paid off at a higher rate than speculated at this time. Finally, ratepayers of the region would benefit from not absorbing the dryhole costs involved in terminating projects and paying higher electrical rates.

This proposal is not without its complexities, but it is possible and should be considered. A number of variations could be adopted in the transfer of funds from Taiwan to the Supply System. One option is to have Taiwan, for example, organize a trading company which would purchase a new issue of stock form Investor-Owned Utilities. These utilities would then use the stock sale proceeds to complete the plant or plants. Another arrangement could be organized between Taiwan, the Supply System and the Direct Serice Industries in the Northwest. The DSIs which process the materials, aluminum for instance, could purchase the plants with capital provided from Taiwan with the agreement that this new investor would be assured a supply of these energy intensive commodities for the long term at competitive prices. The third option was referenced previously and would involve Taiwan purchasing a plant outright and completing it at a cost beneficial to them in comparison to building other nuclear plants on their own soil. Energy intensive commodities would be processed in factories constructed in the Northwest and shipped to Taiwan or to their international and comestic customers using this energy. The tremendous surplus in balance of payments Taiwan enjoys makes them a real candidate in my financing proposal. A similar argument can be developed for Japan and Korea.

The players involved in this arrangement include not only Supply System officials, but local, state, regional, federal and international officials as well. Pursuing such a project, I am convinced, would be in the interests of everyone linked in any way to the WPPSS projects. The potential energy demand of implimenting this solution is unlimited. Concessions might have to be made, but the long range effects and benefits of this solution would outweigh the process necessary to complete the WPPSS plants and attract foreign investment. I am continuing to investigate the feasibility of this financing alternative. If any of you would like further explanation, I am avaialble at anytime to answer your questions.

In relation to Senate Bill 1701 and the authorization of BPA to contract with a new financing entity, I am in support of your efforts to continue this bill through the legislative process. It is a constructive means that can lead to the eventual solution of the total problem. One premise, although, should be kept in mind as this legislation is debated. In no way should Senate Bill 1701 be presented as the total solution to all of WPPSS's problems. It will be of minimal benefit to our region if some false hope is acclaimed that this solves everything. The bill should be ushered through the process as a partial solution and a tool that will not obstruct the progress toward a total solution. The passage of Senate Bill 1701 is part of the solution and I support its attempt to keep plants two and three on schedule for completion and operation. The committee is to be commended for stopping some of the finger-pointing and disruptive criticism that has dominated discussion and starting the process toward some solution.

Mr. Chairman, I appreciate the opportunity to testify before your committee and fellow senators. I hope my comments and ideas will be helpful to you as the future of Senate Bill 1701 is debated. If there are any questions, I am available to assist you.

ATTACHMENT No. 1
Senator J.T. Quigg

| KOREA | JAPAN | TAIWAN | PHILIPPINES |
|---|---|---|---|
| 58.5% dependence on oil imports ($5.8 billion)<br>1.6% nuclear production<br>Korea Electric Power Corp. is the government provider.<br>2 nuclear plants completed:<br>KORI #1 587 MGW cost $300 mil.<br>KORI #3 650 MGW cost $1.2 bil.<br>KORI #2 678 MGW cost $1 bil. Completion 1984<br>6 nuclear plants under construction & to be completed by 1991, all 900 MGW capacity & $1.3 billion cost or $1500/KWH<br>3 originally planned plants have been scrubbed and 2 of the 6 under construction may not be completed. | 54.9% dependence on oil imports. ($56.7 bil)<br>9.9% nuclear production<br>1982 24 reactors operating 17,000 MGW<br>11 reactors under construction 10,000 MGW<br>8 under preparation 7,360 MGW but 5 year delay expected<br>cost per plant under construction $1.2 billion | 70% dependence on oil imports<br>3.2% nuclear production<br>Taiwan Power Company is the government provider<br>2 nuclear plants operating.<br>1 nuclear plant under construction 1985<br>Initial projection of 11 plants by 2000; amended to hold construction until 1986<br>Construction costs are classified. | ($2.1 billion)<br>No nuclear production of energy.<br>3 plants are planned to possibly start construction in 1986; each will be 600 MGW with a cost estimate of $1 billion per plant. |
| Power Costs From Nuclear<br>Under 500 KWH 13.71¢/KWH<br>Over 500 KWH 6.56¢/KWH | Power costs from Nuclear<br>12 yen/KWH or 4.8¢/KWH | Power Costs From Nuclear<br>Under 500 KWH 75¢/KWH<br>Over 500 KWH 32¢/KWH<br>1990 projected price--<br>Under 500 KWH 90¢/KWH<br>Over 500 KWH 61¢/KWH | Power Costs:<br>$1.24/KWH |
| Wood demands: 1986<br>moderate increase with reduction in trade with U.S. and increased importation of Indonesian timber<br>Wood pulp maintained | Wood Demands: 1986<br>Lumber, plywood, fiberboard & particleboard moderate increase.<br>Logs to rise shapely<br>Wood Pulp moderate increase | Wood demands; lumber and plywood moderate increase<br>Wood pulp slight increase | Wood demands: Stablized and increasing imports from Indonesia |
| Aluminum imports | Aluminum imports:<br>[illegible] | Alumunim imports:<br>1982 0.4% increase | Alumunim imports:<br>Not available |

The Chairman. Thank you, very much.

We will next hear from Representative Richard Nelson.

## STATEMENT OF RICHARD NELSON, WASHINGTON STATE REPRESENTATIVE

Mr. Nelson. Senator McClure, Senator Gorton, Congressman Chandler, it's a privilege to be here. My name is Dick Nelson and I chair the Energy Utilities Committee in the State house of representatives.

The thrust of my remarks this morning will be in two areas: first, the need to keep the people of this region involved in making regional power decisions; and second, the problems with the proposed amendment, section 316 of S. 1701.

These two areas are intertwined, because the proposed amendment, despite good intentions, would have the effect of eliminating any public involvement in this very important regional power planning decision. Of course, this issue is also a taxing question, since the amendment would give blanket taxing authority to the BPA administrator.

I think there may be an impression on the Federal level that the State of Washington is not doing anything about the WPPSS crisis. I want to assure you, and I want to assure my colleagues that we are actively involved in the search for a solution. The legislature has not been sitting idly by, but is in the search for its own solution and is willing to join in any other reasonable solution. As I said, I chair the Energy Committee and we spent a considerably number of hours in the last legislative session reviewing every alternative solution that we can find and any that anyone else could bring to us. We monitored the Governor's efforts, we monitored the PUD, and Resolutions Committee's efforts. We have not been ignoring the situation.

We welcome the chance to work with the U.S. Senate in trying to come up with a solution to the problem. The Washington State House of Representatives has put together a Special Committee on Energy Development and Financing, also known as the "Life After WPPSS" Committee, and as chairman, I can tell you that we're cooperating with our Governor's Blue Ribbon Committee, which is trying to achieve a resolution of the total issue of funding powerplants that are needed and cost-effective, and reducing the impacts on the region of the default of WPPSS 4 and 5. We're also taking steps to make sure this problem doesn't recur.

I want to tell you a little bit more about what our committee is doing, but first, I want to outline my specific problems with the proposed amendment.

First, it presumes that WPPSS Plant No. 3 is both needed and cost-effective. There is a very real difference of opinion on these questions. The Regional Power Planning Council, which initially assumed completion of WPPSS 3, is now reexamining that assumption and has begun preparation of a cost-effectiveness study. I think at the very least that we should wait for the completion of that study before any comprehensive legislation is enacted. The supply system has deferred construction for a 3-year period, and with the current surplus, there is time for a careful redetermination of this cost-effectiveness study.

Second, the amendment assumes that the BPA net-billing arrangements are valid. This assumption is subject to legal challenge. I'm sure you know that regionalization of the WPPSS 4 and 5 debt has been firmly rejected by the affected parties within the region. In the proposed amendment, you'll find citation after citation of Federal statutes which purport to show that BPA already has the authority for net billing and regionalization. If that is the case, the question is, Why is the amendment needed?

Third, and perhaps most importantly, there is no provision for any effective public involvement and review of the financing decision. Clearly this is going to be needed if this proposal is to be accepted by the citizens of Washington State. Certainly, one of the lessons of the WPPSS disaster is the need for accountability in public power decisions. Today, power planning in the Northwest is characterized by public participation and review of proposed decisions; as evidence I would cite passage of the Northwest Regional Power Act which involved the public dramatically for the first time and the promulgation of the Northwest Power Planning Council's 20-year plan, as well as the passage of initiative 394; the Energy Redevelopment Financing Act was passed by the voters of the State of Washington.

In short, I have serious concerns with creating another entity, a term that is not specifically defined in the amendment, to ride roughshod over the Pacific Northwest, to tell the people of the State of Washington that this is what your energy future is going to be, and this is what you will pay for it, period.

As I said, the Washington Legislature is actively involved in addressing the problems surrounding WPPSS. Among the issues our Special Life After WPPSS Committee is monitoring and studying are: the cost effectiveness of completing WPPSS plant No. 3; revision of the State statutes under which the monster known as WPPSS got so far out of hand, including those governing its financing authority, negotiated bond sales and change orders; the mechanisms for collective decisionmaking by public and private utilities in power planning; municipal bond financing; and investor-owned utility energy facility financing. We are considering a host of questions that arise from those issues.

In my opinion, the legislature stands ready to work with Congress and other interested parties to achieve a comprehensive solution to the problems surrounding WPPSS. Such a solution should not take crucial, regional energy decisions out of the hands of the people of this region. Therefore, I cannot support the legislation that is put forth.

Thank you.

[The prepared statement of Mr. Nelson follows:]

FOR REP. DICK NELSON -- SEPT. 8, 1983

GOOD MORNING. IT'S A PRIVILEGE TO BE HERE.

THE THRUST OF MY REMARKS THIS MORNING WILL BE IN TWO AREAS:

- -- FIRST, THE NEED TO KEEP THE PEOPLE OF THIS REGION INVOLVED IN MAKING REGIONAL POWER DECISIONS;
- -- AND SECOND, THE PROBLEMS WITH THE PROPOSED AMENDMENT, SECTION 316 OF S. 1701.

THESE TWO PRINCIPLES ARE INTERTWINED, BECAUSE THE PROPOSED AMENDMENT, DESPITE GOOD INTENTIONS, WOULD HAVE THE EFFECT OF ELIMINATING ANY PUBLIC INVOLVEMENT IN THIS VERY IMPORTANT REGIONAL POWER PLANNING DECISION. OF COURSE, THIS ISSUE IS ALSO A TAXING QUESTION, SINCE THE AMENDMENT WOULD GIVE BLANKET TAXING AUTHORITY TO THE BPA ADMINISTRATOR.

I THINK THERE IS AN IMPRESSION ON THE FEDERAL LEVEL THAT THE STATE OF WASHINGTON IS NOT DOING ANYTHING ABOUT THE WPPSS CRISIS. THAT, I ASSURE YOU, IS A MISTAKEN IMPRESSION.

We welcome the chance to work with the US Senate in trying to come up with a solution to the problem. The Washington State House of Representatives has put together a Special Committee on Energy Development and Financing -- also known as the "Life After WPPSS" Committee -- and as chairman I can tell you that we're cooperating with our governor's blue ribbon committee, which is trying to achieve a resolution of the total issue of funding power plants that are needed and cost-effective, and reducing the impacts on the region of the default of WPPSS 4 and 5. We're also taking steps to make sure this problem doesn't recur.

I want to tell you a little bit more about what our committee is doing, but first, I want to outline my specific problems with the proposed amendment:

First, it presumes that WPPSS Plant Number Three is both needed and cost-effective. There is a very real difference of opinion on these questions. The Regional Power Planning Council, which initially assumed completion of WPPSS-3, is now re-examining that assumption and has begun preparation of a cost-effectiveness study. I think at the very least that we should wait for the completion of that study before any comprehensive legislation is enacted. The supply system has deferred construction for a three-year period, so there is time for this cost-effectiveness study.

SECONDLY, IT ASSUMES THAT THE BPA "NET BILLING" ARRANGEMENTS ARE VALID. THIS ASSUMPTION IS SUBJECT TO LEGAL CHALLENGE. I'M SURE YOU KNOW THAT REGIONALIZATION OF THE WPPSS 4 AND 5 DEBT HAS BEEN FIRMLY REJECTED BY THE AFFECTED PARTIES WITHIN THE REGION. IN THE PROPOSED AMENDMENT, YOU'LL FIND CITIATION AFTER CITATION OF FEDERAL STATUTES WHICH PURPORT TO SHOW THAT BPA ALREADY HAS THE AUTHORITY FOR NET-BILLING AND REGIONALIZATION. IF THAT IS THE CASE, THE QUESTION IS, WHY IS THE AMENDMENT NEEDED?

THIRDLY, AND PERHAPS MOST IMPORTANTLY, THERE IS NO PROVISION FOR ANY EFFECTIVE PUBLIC INVOLVEMENT AND REVIEW OF THE FINANCING DECISION. CLEARLY THIS IS GOING TO BE NEEDED IF THIS PROPOSAL IS TO BE ACCEPTED BY THE CITIZENS OF WASHINGTON STATE. CERTAINLY ONE OF THE LESSONS OF THE WPPSS DISASTER IS THE NEED FOR ACCOUNTABILITY IN PUBLIC POWER DECISIONS. TODAY, POWER PLANNING IN THE NORTHWEST IS CHARACTERIZED BY PUBLIC PARTICIPATION AND REVIEW OF PROPOSED DECISIONS -- AS EVIDENCE I WOULD CITE PASSAGE OF THE NORTHWEST REGIONAL POWER ACT AND THE PROMULGATION OF THE NORTHWEST POWER PLANNING COUNCIL'S 20-YEAR PLAN, AS WELL AS THE PASSAGE OF INITIATIVE 394 -- THE ENERGY REDEVELOPMENT FINANCING ACT -- BY THE VOTERS OF THE STATE OF WASHINGTON.

IN SHORT, I HAVE REAL PROBLEMS WITH CREATING ANOTHER "ENTITY" -- A TERM THAT IS NOT SPECIFICALLY DEFINED IN THE AMENDMENT -- TO RIDE ROUGHSHOD OVER THE PACIFIC NORTHWEST, TO TELL THE PEOPLE OF THE STATE OF WASHINGTON THAT THIS IS WHAT YOUR ENERGY FUTURE IS GOING TO BE, AND THIS IS WHAT YOU WILL PAY FOR IT, PERIOD.

As I said, the Washington legislature is actively involved in addressing the problems surrounding WPPSS. Among the issues our special Life After WPPSS Committee is monitoring and studying are:

-- the cost-effectiveness of completing WPPSS Plant Number Three;

-- revision of the state statutes under which the monster known as WPPSS got so far out of hand, including those governing its financing authority, negotiated bond sales and change orders;

-- the mechanisms for collective decision-making by public and private utilities in power planning;

-- municipal bond financing;

-- and investor-owned utility energy facility financing.

Among the questions the committee will be asking are:

What should be the role of the Legislature and the state Utilities and Transportation Commission in handling "dry holes"?

Should the services of the State Auditor and State Attorney General be required in financing decisions?

ARE THERE WAYS TO PROVIDE EFFECTIVE PUBLIC OVERSIGHT OF PUD DECISIONS WITHOUT SACRIFICING PUD INDEPENDENCE?

IN MY OPINION, THE LEGISLATURE STANDS READY TO WORK WITH CONGRESS AND OTHER INTERESTED PARTIES TO ACHIEVE A COMPREHENSIVE SOLUTION TO THE PROBLEMS SURROUNDING WPPSS.

IF YOU REALLY WANT TO HELP, DO NOT ADOPT, I REPEAT, DO NOT ADOPT THIS AMENDMENT. DON'T TAKE THIS CRUCIAL REGIONAL ENERGY DECISION OUT OF THE HANDS OF THE PEOPLE OF THIS REGION.

THANK YOU.

## STATEMENT OF MAX BENITZ, WASHINGTON STATE SENATOR, AS PRESENTED BY BARRY BEATTY

Mr. BEATTY. Mr. Chairman, my name is Barry Beatty and I am a legislative consultant for the Washington State Senate. I will be representing the testimony of Senator Max Benitz. Senator Benitz represents the eighth legislative district. This area represents the Hanford and Tri-Cities area and is the home base of potentially three of the nuclear plants in the State of Washington.

Senator Benitz is deeply concerned about the future of providing energy to the State of Washington, not only today, but in the future. We look at the effort of your committee as a possible start or possible solution to the many problems involved in WPPSS. At the moment this is one viable way to finance plant No. 3. This is a positive move and should be pursued.

S. 1701 does not represent a total solution. The argument will be presented, I'm sure, this afternoon, this is only a piecemeal solution but a piecemeal solution is progress in the development for some resolution of the many problems of WPPSS. Senator Benitz commends the committee on the spark and initiative to take action. The State legislature of the last legislative session failed to take a responsibility or provide leadership in solving this problem.

Senator Benitz introduced a possible measure, a progressive measure to solving the WPPSS problems. This was providing a project-by-project bankruptcy. This is a very important component and should be pursued not only at the State level, but also at the congressional level. There is, I'm sure, the common attitude will be delivered this afternoon of not becoming involved. There is not a consensus in this area or in this region to the solution of WPPSS. We are looking for your leadership and appreciate the opportunity to provide us with a solution.

One thing that so far has been overlooked this morning is that you are in this legislation providing the State legislature with the opportunity to define this new entity. This is ambiguous at this time, but it will be up, has to defined pursuant to State law. The gamble how is that, or the odds now, is that the State legislature will require a new definition of this entity and this will be a very scrutinized process. At that time all interests in this State will be given the opportunity to define what this entity is going to be.

The reference to super WPPSS, I'm sure we are not looking to the legislature to be involved in a WPPSS. The opportunity of this new entity will be to correct some of the problems, to avoid some of the pitfalls that WPPSS has confronted in the last year and might be confronting in the future. This is a new alternative and should be pursued. At the moment there is no other alternative. The mothballing of plant No. 3 is not a viable alternative. Senator Benitz is very concerned that the mothballing of No. 3 will be a termination of the plant. Termination of the plant will not provide an opportunity for that plant to ever generate any revenue to pay for itself.

The ratepayers of the State potentially through BPA and the net billing agreements could be observing the ripe old costs. The term of $6 billion involving 4 and 5, the potential costs to ratepayers, this could be as much as $4 billion involved in plant No. 3 alone. Progressive action on plant No. 3 should be taken and we support this legislation.

There is uncertainty involved. There is going to be uncertainty involved in any solution. The problem is just too complex for simplicity to be involved. We need a comprehensive solution. This bill represents a start. I might not be the answer, but it could be used as a framework or used as a nucleus for another decision. We urge you to get this on the Senate floor and let it pursue through its legislative course. It is a gamble. Any solution is going to be a gamble, but we have to take positive action.

In summation, a portion of WPPSS's problem will be solved by this legislation. Senator Benitz believes the costs of waiting are going to greatly outweigh the costs of attempting to complete these plants at the moment.

We thank you for the opportunity to deliver these comments and commend the committee on its ability to look for potential solutions.

[The prepared statement of Senator Benitz follows:]

TESTIMONY BEFORE THE UNITED STATES SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES: SENATOR JAMES McCLURE, CHAIRMAN

September 9, 1983
Seattle, Washington

Good morning Mr. Chairman, Ladies and Gentlemen.

I am Max Benitz, State Senator of the 8th Legislative District which includes the tri-cities and Hanford areas. During 1982 I served as Chairman of the Senate Engergy and Utilities Committee and now serve as the ranking minority member on the committee. My involvement in the progress and problems of the Washington Public Power Supply System, better known as WPPSS, has been active and intense. I am deeply concerned about the interests of our state's citizens and want to insure that the basic energy needs of our state are met today and in the future. Senator McClure, other sponsoring members, and the United States Energy and Natural Resources Committee are to be commended for taking the initiative and providing a possible solution to the problems of WPPSS. This morning's information gathering hearing on Senate Bill 1701 may well represent the only alternative left for the completion of the three remaining nuclear plants in the State of Washington. The financing solution proposed should not be taken lightly. I believe you have provided the opportunity for the WPPSS situation to be stabilized and such an opportunity should not be passed up.

Senate Bill 1701 does not represent a total solution to the many problems of WPPSS, but it does provide a strong and positive foundation to be used in resolving other problems. The time is over-ripe for action and a solution involving at least some of the nuclear projects in our state. The past months have been extremely frustrating for me. They have been dominated by the inability of those affiliated with WPPSS to reach a consensus and the unwillingness of the state legislature to take some initiative and confront these problems. The period of standing back and waiting to see what will happen to WPPSS is over. It is now time to take some action. As a State Senator I am bothered it has become necessary to involve Congress in the problems of WPPSS and look to you to provide the leadership and assistance to find solutions. WPPSS is a regional public corporation which should be able to solve its problems using regional resources and personalities. Unfortunately, we have not had the necessary cooperation, initiative or desire in the state to confront and solve the problems of WPPSS. We have had a number of opportunities, but each time we have failed to take any responsibility and act.

During the past legislative session, I made an exhaustive attempt to resolve the financing difficulties of WPPSS. I sponsored legislation that would have stabilized the WPPSS organization by permitting the filing of project-by-project bankruptcy, thus prohibiting a WPPSS system-wide Chapter 9 filing that would involve all the projects and assets of WPPSS. This legislation provided the needed protective wall between WPPSS terminated plants and those under construction. It was a solution carefully worked out and the major prerequisite for continued financing of WPPSS nuclear projects one, two and three. A false commitment was made by the controlling party in the State Senate that the issue would be openly debated on the Senate floor. The controlling party and the present chairman of the Senate Energy and Utilities Committee cowered at this honest attempt to secure financing, killed the legislation, and did nothing to resolve the dilemma. I sincerely believe we would not be here this morning discussing another means to provide financing for the completion of the remaining WPPSS projects if the state legislature had assumed its appropriate responsibility and acted on the WPPSS bankruptcy bill last May. This question of protecting the assets of projects still under construction and those terminated still remains and I believe should be confronted more directly in the legislation before us. Unless the bond community has some assurance investments in projects one, two and three can be protected from involvement in the settlement of projects four and five, it will not matter who the administering entity is. It will be unable to find financing in the bond market.

Those in opposition to Senate Bill 1701 will likely voice the common attitude of not becoming involved in any way with the WPPSS situation. It is simplistic to take this attitude that WPPSS is not our problem. It is our problem and the State of Washington will continue to suffer consequences until something is done to bring some stability.

The passage of Senate Bill 1701 in Congress is the necessary first step to bringing stability to WPPSS and permitting the completion of any of the WPPSS projects. At the moment there is no other alternative. The Bonneville Power Administration has to be brought into the equation if it will help resolve the financing problems of projects one, two and three. I am cautious about opening the door for BPA control of the WPPSS projects and eliminating WPPSS from any input into the financing of projects, but realize some state control must be given to the federal agency to insure financing.

As I understand Senate Bill 1701, BPA will be permitted to enter into financing agreements to secure the cost of construction and completion of either WPPSS project number two or project number three through the formation of a new entity, established pursuant to state law, that would issue bonds whose proceeds would be used to continue project construction. The security for the bond market and the lenders of funds to this newly created entity would be a firm contract between the new entity and BPA. The contract would commit BPA to pay the principle, interest and related costs of the new borrowings directly to the new entity. The definition of this new entity will provide a challenge to us in the legislature and I am sure will be very carefully authorized. The symbol of WPPSS has become a liability and probably will never be able to secure financing or regain its credibility. A new entity, fresh and unaffiliated with the liabilities of WPPSS is mandatory to restoring confidence in the financial community to float any type of construction bonds.

I believe passage of this bill is the only opportunity we will have to complete plant number three at Satsop and avoid the uncertainties of mothballing the project. Plant number three is needed, will be cost-effective to complete, and should be completed to protect the interests of all participants; private utilities, public utility districts, municipalities and the state's ratepayers. This is not a bail out for anyone but a plan that will in the long run benefit everyone. By completing project number two at Hanford and project number three at Satsop we will be insuring adequate available power in the future and a means for the projects to pay for themselves.

Now is the time to take positive action and further delays in making a decision will just bring us closer to absorbing dryhole costs potentially greater than those being experienced with projects four and five. Mothballing is not a prudent solution in my mind because the costs of mothballing could easily exceed the costs to complete construction. As of last spring, it was calculated $960 million was needed to complete plant number three, $1.6 billion in bond sales remained outstanding, $146.3 million had been paid by BPA in net billing costs, $535 million paid by the private owners as their share, and a total of $1.8 billion outlayed on construction and fuel costs. This is a substantial investment and had brought the project within twenty percent of completion. In comparison, the costs of mothballing the project for three years and then attempting to restart construction are estimated to add as much as $720 million to the final cost of number three. This means that in the future, if the project is ever completed, we would be talking about seeking financing for over $1.7 billion instead of the present estimate of $960 million. Prudent reasoning says now is the least expensive time to restart construction and finish the project.

Another factor of mothballing needs to be discussed. Nowhere in the nation has a project as close to completion as project number three been successfully delayed and then later completed. The gamble of never completing number three is too great if mothballing of the project is not immediately ended. If the gamble is lost, I venture to predict that the ratepayers of this state could easily be absorbing dryhole costs of as much as $6 billion. Such a burden would be awesome in comparison to the economic burden on ratepayers if the project is completed. It is with this logic that it is cost-effective to now finish the projects. Only with such a commitment can it be guaranteed that the state will have facilities capable of generating power and paying for themselves. The alternative is having nothing to show for a tremendous investment.

The power from number two and three will be needed in the future. The Northwest Power Planning Council has included the projects in their forecasts and agrees with this position. I am convinced the northwest will continue to attract new industries and grow. With this growth will come added energy demand. To think otherwise and cater to a no growth theory is extremely short-sighted and unrealistic. Another factor in discussing the need for these projects and future power demand is the out-of-region market. BPA's intertie between the northwest and California is just developing and every indication is that any excess power available can be sold through this exchange.

The economy of the State of Washington would be a further beneficiary to the completion of these projects. Over 3400 direct jobs and 8000 related jobs would be recreated with a startup of construction on project number three. Senate Bill 1701 is the mechanism to get these jobs back into our state's economy and I fear the only solution. Reassembling the work force would not be an easy task, but it would be less difficult and less expensive to do it now than to try it two, three or five years down the road. We need to take the initiative now and act before the projects further deteriorate.

The adoption of Senate Bill 1701 in Congress will not answer all the complex problems of WPPSS and I do not believe it should be considered in this context. I am sure you will receive testimony that this is only a piecemeal solution and does not involve all the aspects of WPPSS under question. To me it is ridiculous to think it will take only one action to cure the WPPSS fiasco. The legal snarl created by the termination of projects four and five, by the mothballing of projects one and three, by the uncertainty of operating project two, and by all the litigation involving participants, PUD commissioners and bondholders cannot be solved by one swoop of the pen or by one piece of legislation. To bring any stability back to WPPSS will take a step-by-step approach and the legislation before us this morning is the first step.

This initial step is not an easy one to take. There is uncertainty involved and many questions to be asked. By authorizing BPA to become involved in the financing equation with a yet undefined new entity does have its risks. You have heard from critics already who are requiring all questions about this new entity be answered before any action is taken. They want to know who the entity will be accountable to, how it will be organized, what will be its role and what will be its parameters of responsibility. None of these questions can be answered at this time. It is not the responsibility of your committee or the Congress to define this new entity, but as the legislation outlines, the responsibility of the state legislature. We in the state House and Senate need to be given the opportunity to answer these questions and carefully define this entity, but we will not have this opportunity unless Senate Bill 1701 is passed and BPA is authorized to become involved in the financing equation. I can guarantee your committee that if the legislature is given this opportunity, the new entity will be credible, carefully defined, and a solid organization.

Unprecedented scrutiny would certainly be given to this process and a new organization capable of withstanding any challenge would result. There are so many critics of WPPSS in the controlling party of our legislature that if any entity is defined all questions will have to be thoroughly answered and all parties, public and private power organizations, the direct service industries and all interest groups, consulted. This assurance takes a lot of the gamble out of what Senate Bill 1701 will accomplish. The bill itself is written in reasonable and simple terms. The only recommendations I might make to your committee and to Senator McClure as sponsor are to insure the content of the committee report is included in the bill and to strengthen any language constructing a wall between projects two and three and those WPPSS projects that have been terminated. I am convinced at some time it will be necessary for both Congress and our state legislature to pass legislation permitting project-by-project bankruptcy, but until this is done every effort should be made to insure the financing of projects two and three through Senate Bill 1701 cannot be linked to a settlement of the four/five situation. The bondholders are going to require such assurance before any financing is secured.

In summation, Senate Bill 1701 represents a viable solution to at least a portion of WPPSS's problems and its passage would be in the best interests of all parties involved. The time remains over-ripe for some action to secure financing for projects two and three and there is no immediate alternative to the solution offered in Senate Bill 1701. Our state legislature has failed to take the responsibility and we need Congressional involvement immediately or the ratepayers of this state will never see the operation and completion of these nuclear projects and they will be faced with dryhole costs of devastating proportions. I remain convinced the costs of waiting will far exceed the costs to complete these facilities. It will be cost-effective to have these two projects operating and generating power to pay for themselves. What Senate Bill 1701 represents is not a bail-out for one particular group, but a solution that will be in the best interests of all participants. It gives no one a blank check to complete these projects, but enables BPA to openly contract with a new entity, which I am sure will be strictly defined and authorized by the Washington State Legislature. The agreement will have controls and will be closely scrutinized. I am confident the problems of WPPSS will not be duplicated by passing this legislation and directing the state to define this new entity. The gamble should not be viewed of involving this legislation as much as it should involve the consequences of not completing and operating projects two and three. Their power will be needed in the future and now is the time to take positive action and avoid substantially greater completion costs down the road. Senate Bill 1701 provides the mechanism to insure the completion of these projects and I strongly urge its passage. It is a positive course of action and its solution should be at least tested.

The inclusion of BPA into the equation of future financing of these two projects is a necessary step to stabilizing the problems of WPPSS. The Supply System has confronted devastating court decisions in the past months and the public is looking for some action to resolve the chaos. Senate Bill 1701 is the only viable alternative available. I am in total support of this legislation and request every effort be made to insure its passage. Without your committee's leadership and direction of this alternative, the chaos of WPPSS will continue with no resolution in sight.

Mr. Chairman, I hope these thoughts are helpful to you and the committee as you deliberate the future of Senate Bill 1701.

Thank you for this opportunity to testify. I am available to answer any questions you have or assist you in any other way.

Senator GORTON. I have a question of Representative Nelson. I commend you and am impressed with what your legislative committee on this subject is attempting to do because it's exactly the kind of examination which is going to be necessary in order to achieve a solution. I guess I would like to ask you this, do you oppose Federal legislation which adds to the alternatives which you, as a practical matter, will create here at the State level? The thrust of this proposal is to allow the creation of an entity under State law, subject to State law under which it can take a certain course of action if it finds it advisable to do so, but certainly there is no requirement that such an entity be created. Do you feel that there is some absence of State control over such an entity, absence of right of referendum, or which is effective?

Mr. NELSON. Senator, I think I, as most people involved with this issue, have begun to read the fine print. We are starting to read the fine print of contractual agreements and reading the fine print of legislation. What I read is that the backup language to the amendment says the BPA shall consider the need for marketability of power. In my opinion, the people of this State have very little confidence in the BPA. The BPA is a Federal agency that has led us into four private dry holes and two, or perhaps more, public dry holes. To invest in that agency without really giving or mandating that they must make a cost effectiveness determination, or even if we did that, to give them the authority to decide whether this plant is cost effective and needed is not sufficient, I think, for the people of this State. We have some mechanisms. We have initiative 394. It is possible that Federal legislation could be written to defer to the State. It is possible that Federal legislation could defer to the regional power council and mandate that its determination be used by the BPA in the decision to proceed with the investment.

Senator GORTON. I see that as a potentially constructive suggestion. Does your committee have any suggestion as to a way which this could be changed to allow for public participation in the making of the ultimate decision in this regard?

Mr. NELSON. Those two alternatives I mentioned I think need to be explored. We are willing to explore those with you. Our concern is that we don't see that in the legislation. We see a Federal authority determining whether or not this plant should be financed and completed. We don't see, we see the State only participating in the establishment of an entity which has a lot of questions associated with it. That's our problem. Frankly, we have not been consulted on this. We would like to be involved in understanding this legislation. I am personally prepared to spend some time on it.

Senator GORTON. We in turn appreciate that participation and would be delighted to receive suggestions which would allow a further, closer participation on the part of the legislature and people.

Mr. NELSON. May I add one other comment? The language also says that the BPA must compare the financing, financing of the plants, cost effectiveness to other generating resources. We find that, I find a personal deficiency in that generating implies other thermal powerplants, perhaps hydroelectric plants and doesn't imply conservation as an alternative. At the same time BPA is deciding there is not money to finance conservation, we go ahead and finance the thermal plants. It seems to me that that's not——

The **Chairman**. I want to point out that's one of several provisions. The cost effectiveness for completion must be analyzed. They must look at the alternatives, not just at alternative thermal generation.

The testimony has been constructive. I appreciate your testimony today. Thank you.

Next we have the Honorable Charles Royer, mayor of Seattle.

## STATEMENT OF CHARLES ROYER, MAYOR, SEATTLE, WASH.

Mayor **Royer**. Thank you, Mr. Chairman. I am Charles Royer, mayor of Seattle. With me is Joe Recchi, the superintendent of Seattle City Light, a municipally owned utility in Seattle.

Let me say, Mr. Chairman, first, to welcome you to Seattle, and to do so in terms of the issue. This is one that political people might be best advised in their darkest instincts to duck. Simply not to embrace this issue because the polarization is great, emotions run high, and the problem has not been addressed full steam ahead by most, or all, concerned and involved elected officials. So all of us, I believe, welcome the committee's interests and involvement and welcome you taking this issue on because the Federal partner has been missing for some time and now you are there and while many of us may not completely agree with the conclusions being discussed or the problems being discussed, the fact that you are there is important because this is a national problem.

Let me quickly, and hopefully not to be repetitive, Mr. Chairman, go through some of our concerns in the city of Seattle which is the fifth largest municipally owned utility in the country and one that has been intimately involved in this issue for some time.

The major point of my testimony today is to suggest that this vitally important role you and the committee have undertaken perhaps can best be played, that partnership role, by finding the answers and in the consensus building process, that may be long and it may be difficult, but finding the answers to some critical questions must be defined, must be answered before, in our opinion, any action could be taken on legislation. Your interest has already stimulated a great deal of discussion on S. 1701 and tremendous stimulus to the legislature and other people in Seattle trying to answer those questions for ourselves and in our own area of interest. That information should be extremely helpful to you as you proceed.

Both the Bonneville Power Administration and the Regional Power Planning Council have begun studies, as you know.

They detail out the principals on which we would evaluate the solution of the legislation. That BPA and power plant study and the Luce Commission efforts all have been stimulated and energized by your involvement and these studies are being carried out cooperatively, you should know, and any information we generate that you might desire to use will certainly be made available to you.

The answers and the question, the question rather, Mr. Chairman, I'm speaking of really come down to three critical questions. What is the real cost of completing construction of plant 3, what is the affect on Seattle ratepayers and other regional ratepayers under the various financing schemes being considered, what is the affect on Seattle and the rest of the region's rates if there are significant extra regional sales of surplus power?

You have an opportunity to structure further work on S. 1701 on a time schedule that would allow the Congress and the public to take full advantage of the work under way. In making that request that you not enact legislation in the Senate until this work has been completed, that there are three major points. The future of plant 3, of course, is the primary point of the legislation and only emerged as a central concern to us relatively late in the life of WPPSS. It is a relatively recent issue for us to confront. And it certainly is as complex as all of the other issues are.

In the short time since plant 3 emerged actions have been taken in the region to determine the wisdom of proposed solutions. All three of the studies I have mentioned, actually four, should be completed this fall in time to provide you and the public, that is, as you know, skeptical and hot on this issue, to provide the public some time to understand one of the most complex webs of public policy that we have ever had to deal with in the Pacific Northwest and if the public doesn't understand it, the public won't support it and we'll have fewer and fewer public officials and politicians willing to step forward and try to explain it because the heat is too great.

As the largest public utility in the Northwest we have special responsibility to our ratepayers, to our partners in the regions planning process, to the tradition of public power. Those are areas we will be addressing from our own interests and trying to give you the best information we can.

City Light is owned, operated, and financed by the people. These characteristics of the public power really form the cornerstone of the Regional Power Act. The traditions and history of public power are generic in that act passed by the Congress. They are also generic in the legislation under which BPA operates and must continue to be protected. We have so much in common with others in the region and share the broad concern, which I think you have heard and will hear consistently that any proposed financing scheme be cost effective. Like all of our partners in the region we want to know with some degree of certainty what we will have to pay for the energy we purchase from Bonneville. Certainty has not been a hallmark in the region. In 1977 we had a 12-percent increase, in 1980 a 40-percent rate increase, 1982 a 38-percent increase and there are new factors now being folded into the proposed rate increase Bonneville is considering now. We know that certainty is not going to be so easy in terms of what we will be paying for energy purchased from Bonneville. We know that the schedule chosen for completion of plant 3 will affect the overall demand for energy, use of residential exchange provisions in the Regional Power Act and a whole lot of other factors we use in our planning process. We have probably one of the most complex and thorough rate-making processes you will find in the country with enormous public involvement in that process and we have nine decision makers at the end of that process in our city council who do everything they do in public, generally with large crowds present.

The effect of those changes I'm talking about in terms of cost cannot be calculated yet and that uncertainty is major in our minds, as you must know. In addition to those regional issues, Seattle City Light and other utilities have concerns on the effects of bills that come to unique circumstances which characterize not only the country, but our region that we are trying to deal with. For example, we own and operate a series of dams which does allow us to generate 70 percent of the power we consume. We buy 30 percent from Bonneville and other sources. Since the mid 1970's we have had tremendous investments in renewable resources and in conservation and we elected not to participate in plants 4 and 5. We took alternative courses of investment. We have invested in those other sources of generation and power including conservation more than any individual utility that has invested in WPPSS. So we took our own financial risks and our own course. There are utilities who have chosen different courses and have different concerns.

Because we generate our own power we are often given the whether able to sell surplus power to California and other customers which helps us to maintain our low rates and fiscal viability of our utility. We know that one element of the proposal to choose a completion date for plant 3 may be consolidating a firm contract between the Northwest and Southwest for the sale of surplus power. I think our ratepayers have a right to know in advance what effect that will have on our sale of surplus, and therefore on their rates.

The studies underway will settle a lot of these questions, Mr. Chairman, and help us to focus our attention on the remaining issues that must be settled by policy judgment, not by negotiation or legislation.

The CHAIRMAN. I wonder if you could summarize briefly? Your time has expired. Your comments in their entirety will be in the record.

Mayor ROYER. Yes; three final goals, which are not beyond our grasp, first is cost effectiveness. Each of the studies has an economic prospective and we will address that. Second, is planning flexibility to reduce the risk of irreversible financial commitments. Third, we must maintain local control of public power. The Federal Government may be the only source of energy, if you will, to bring us together in this region in some consensus. You have started that in decisionmaking which is the basis of our Regional Power Act, history and culture needs to be preserved, local control of public power.

And a final goal, Mr. Chairman, is equity. That's an elusive goal that ought to be uppermost in you mind as you consider this legislation.

Mr. Chairman, I apologize for going over, but I thank you for this opportunity.

[The prepared statement of Mayor Royer follows:]

# TESTIMONY OF CITY OF SEATTLE
# BEFORE THE U.S. SENATE COMMITTEE
# ON ENERGY AND NATURAL RESOURCES

Mr. Chairman and distinguished members of the Congress:

I am Charles Royer, Mayor of Seattle. I would like to welcome you to our city, and express our appreciation for your willingness to struggle with the future of the Washington Public Power Supply System and its most imminent problem, Plant 3.

In the midst of the political and economic chaos created by the WPPSS failure, there has been an understandable tendency toward panic among some, paralysis in others.

The efforts of your committee, and other members of the Congress, have been vitally important in restoring a sense of order and a concern for the public interest. The problems of the Supply System are national in scope, and I applaud your recognition that the federal government must be a prinicpal actor in resolving those problems. The major point of my testimony today is to suggest that role can best be played by getting the answers to some critical issues before taking action on legislation. The congressional interest generated by S.1701 has already been a powerful stimulus to those in our region who are actively working to find responsible solutions to the problems that remain.

Both the Bonneville Power Administration and the Northwest Regional Power Panning Council have begun well-structured studies onthe issue on completing Plant Three. In addition, the City of Seattle is in the midst of a detailed study of the implications for our utility and its ratepayers. These studies are being carried out cooperatively, and each addresses a different aspect of this complicated issue. They will give us answers to some critical questions:

- What is the real cost of scompleting construction of Plant Three?
- What is the effect on Seattle ratepayers and other regional ratepayers under the various financing schemes being considered?
- What is the effect on Seattle and the rest of thew region's rates if there are significant extra-regional sales of surplus power?

You have an opportunity to structure further work on S.1701 on a time schedule that would allow the Congress, and the public, to take full advantage of the work underway. In making that request, I wish to make three major points:

1. The future of Plant #3, which is the primary point of this legislation, only emerged as a central concern in the Spring of this year when it became clear that financing for the plant could not be secured. It is a new topic in the complex web of issues surrounding our regional energy policy.

2. In the short time since Plant 3 emerged as a salient issue, appropriate actions have been taken to determine the wisdom of proposed solutions. All three of the studies I mentioned, in addition to the Luce Commission's comprehensive report, will be completed this fall, in time to provide the Congress, the public, and individual utilities with a solid base of information to choose the best possible course of action on Plant 3.

3. As the largest public utility in the Pacific Northwest, Seattle has special responsibilities to our ratepayers; to our partners in the regional planning process; and to the tradition of public power.

Seattle City Light is owned, operated and financed by the public. Those characteristics of public power are a cornerstone of the Regional Power Act and the other legislation under which the BPA operates, and they must continue to be protected. These special responsibilities have caused us to adopt a very cautious and thorough approach toward this legislation and to carry out our own assessments of the effects of the legislation on the people we serve and the traditions we represent.

We have much in common with others in the region. We share the broad concern that any proposed financing scheme be cost-effective. Like all our partners in the region, we want to know with some degree of certainty what we will have to pay for the energy we purchase from Bonneville. We know that is not an easy question. The schedule chosen for completion of Plant 3 will effect the overall demand for energy, the use of the residential exchange provisions in the Regional Power Act, and a host of other factors. The effect of these changes cannot yet be calculated, and that uncertainty concerns us.

In addition to these regional issues, Seattle City Light and other individual utilities have a host of concerns about the effects of this bill that arise from unique circumstances. For example, City Light owns and operates a system of hydroelectric plants that enables us to generate 70% of our own power. Since the mid-seventies, we have made very large investments in conservation and renewable energy. These factors have meant that we carry a different set of risks than some other utilities in the region. This also means that we are sometimes able to produce and sell power that is surplus to our needs.

We understand that one element of the proposal to choose an early completion date for Plant 3 may be consolidating a firm contract between the Pacific Northwest and the Southwest for the sale of surplus energy. Our ratepayers have a right to know in advance what effect that arrangement would have on the sale of surplus power by City Light, and therefore on their power bills.

The studies now under way will settle many of these questions, and help to focus our attention on the remaining issues that must be settled by policy judgements, by negotiations or by legislation.

I believe that we can reach that point of clarity within several months. Until we have that clarity about the effects of S.1701, we cannot support the bill in its present form. While it may be too early to support a specific remedy, it is not too early to state the goals that should guide our effort to reach a final decision.:

o First among these is cost effectiveness. Each of the studies I have mentioned has an economic perspective, and recognizes the increasing public concern about rising energy costs. This concern should provide a common denominator for comparing widely different schedules for completing Plant 3.

- Second is planning flexibility, to reduce the risk of irreversible financial commitments. The region is in the midst of major changes in its energy use and growth patterns. In this atmosphere it is important to consider not only the cost-effectiveness of various schedules, but their flexibility as well. This is the only way to manage the risks.

- Third, we must maintain local control pf public power. While the federal government may be the only source of sufficient authority to resolve the immediate problem, local control of public power is essential to ensure accountability in decision-making. The authority and resources of the federal government should be used to complement the healty mix of independent decisions and actions which have promoted diversity in such important areas as resource development and conservation.

- Our fourth and most important goal is equity. We must ensure that our choice is fair to all the region's

> diverse utilities and major industries. Just three years ago, the Congress adopted the Pacific Northwest Electric Power Planning and Conservation Act, which was held to be an equitable solution to the planning dilemmas of the region. New problems have arisen but the principals of equity in that Act must be preserved. The solutions to new problems must reflect a positive result for all groups, and not just a few.

Mr. Chairman, the work now underway throughout the region will provide us with better choices. We can do better than to choose between panic and paralysis. We have the opportunity to make an informed decision. The Northwest Power Planning Council, the Luce Commission, the BPA, and Seattle City Light, are all engaged in an intense effort to gather the information on which that kind of decision can be built. The facts these studies produce will not end the debate among the diverse interests in the Pacific Northwest, but they will shed new light, and help to shape a decision which truly reflects the interest of all the people in the Pacific Northwest.

The **Chairman**. Thank you very much.

No question? Thank you very much. We look forward to working with you.

Mayor **Royer**. Thank you.

The **Chairman**. State Representative Ray Isaacson.

## STATEMENT OF RAYMOND E. ISAACSON, WASHINGTON STATE REPRESENTATIVE

Mr. **Isaacson**. My name is Raymond E. Isaacson. I am Representative from District Eight, the Tri-Cities. My backgrond is that I have a degree in chemical engineering and 30 years experience in the nuclear field, mostly with respect to separation, environmental research and the earth sciences.

The people from my district are very concerned about what we are doing relative to providing sufficient energy to meet the needs of people in the Northwest. I believe your legislation addresses this problem in a way that can make it possible for us to achieve those goals, those desirable goals. We have a problem, however, in the Northwest in that the people have not really come to understand the real problem. The real problem is that of energy supply. Lacking that understanding then, we find a clamoring relative to questions regarding increases in rates, necessary increases in rates and most of the information has been focused in that direction. I would say that has been one of the greatest errors perpetrated on the people of the Northwest and drummed into the media to the extent that people really believe they are paying unfair quantities or amounts for their electrical rates.

I have done studies now for a number of years, continued that study and I will share with you that one of the greatest impacts on rates is the cost of construction, the inflated cost of construction which has resulted from higher costs, generally speaking, throughout the Nation. The data I refer to is that of the cost construction index which is from the Engineering News Record, which has been tracking that engineering costs since 1905. If we can look at that we find that the costs of construction for the last decade has increased at a rate of 17.7 percent per year compounded annually. That has caused an increase in costs of plants beyond the wildest imagination of many people. And during this period when the supply system was starting their reactors and getting into the main efforts of building those plants, we saw a cost of construction inflate by a factor of 2 between the years 1973 and 1979. Most of the increased costs of plants has been attributed to mismanagement. Yet, if you look at the cost of inflation or cost of interest, you can find that you can start with the original official forecast of the supply system reactors and project those costs to the bottom forecast today and with using the average interest rate during that period of time, you will find you can calculate within 95, 97 percent of the actual cost of those plants.

I have taken the question further and I have looked at costs of energy from hydroelectric plants. The city of Seattle recently entered into a contract for energy from the Recipe Smith project in central Washington at 75 mills per kilowatt hour. Now, that is more than twice what we are paying right now. We look at the

Skagit project. I'm looking at the Snohomish project, Sultan Dam, and based on 1980 dollars, the cost of hydropower from the facility will be in the range of about 71 mills or $0.07 per kilowatt hour. We look at coal, not many years ago, at 50 mills per kilowatt hour.

What I'm saying is that everything we look at in the way of new energy source, including conservation, are at prices and costs that people just can't fathom have happened or are happening, or will happen, because of inflationary trends and because of the interest trends.

One other aspect that people are forgetting, I listened to some of my fellow legislators here, I have to apologize for arriving late, they're concerned about what the State of Washington is going to do relative to the issue of completing No. 3 or with the supply system. I would submit to you that one of your problems with the supply system is the fact that the very States who have participated in the supply system reactors have laws that were found unconstitutional in the courts. And thus, it is not a Washington State problem, but it's Northwest regional problem and the State legislature, Washington State Legislature, cannot address those regional problems in and of itself and by itself, but rather must be a regional solution to the problem.

And one of the biggest problems we have to date is that we cannot borrow money because of the problems of not being able to address the financial situation with respect to 4 and 5. Because of the impediments of 4 and 5 we have resources that are very near completion that are subject to not being completed because of potential default of the entire system because of problems of 4 and 5. We must find a regional solution to address the problems of 4 and 5 as well as 1, 2, and 3, so that in the future when we need additional energy those facilities we have invested in at some cost can never be replaced with current dollars because current dollars are less in value than when they were built, and so 4 and 5 really do represent assets, irreplaceable with current day dollars. It would cost you more to provide that much of an energy facility.

One other factor not considered by anyone in the Northwest is what we are going to be doing for energy 20 years from now when we do not have access to petroleum as we know it today. Thus, we must provide a sound base, firm base, and if we destroy the base we have today by a willy-nilly approach to financing of the supply system reactors, I question what the people of the Northwest will do for energy.

The CHAIRMAN. Your time has expired. Thank you. Any written material you may provide will be made a part of the record.

Mr. Peter Johnson, administrator of the Bonneville Power Administration.

### STATEMENT OF PETER T. JOHNSON, ADMINISTRATOR, BONNEVILLE POWER ADMINISTRATION, DEPARTMENT OF ENERGY

Mr. JOHNSON. Mr. Chairman, my name is Peter Johnson. I am the administrator of Bonneville Power Administration. In the event there may be questions, I have three gentlemen to my left that would be happy to assist you.

I wish to thank you for this opportunity to testify on S. 1701 and section 317 to H.R. 3363 today on behalf of the administration, and to provide views on the Washington Public Power Supply System and its difficulties.

As I stated before this committee on August 3 of this year, I commend your decision to hold hearings in the region on this legislation dealing with complex and critical issues concerning the supply system.

My letter of July 18, 1983, to this committee, which is a part of the record of the August 3, 1983 hearing on this issue, requests clarification and reaffirmation from the Congress of Bonneville's authority to enter into arrangements with a new entity to finance the supply system projects from which BPA has acquired the project capability through new billing agreements.

In addition, I would also like to refer to a copy of a letter dated August 1, 1983, from the Department of the Treasury, which is also a part of the hearing record. This letter suggests an amendment to the language of the bill we are discussing today. This amendment clarifies the administration's view with respect to BPA ratepayer obligations to repay the full costs of any new financing which might be available as a result of the bill. This language is designed to insure that no Federal funds in the form of borrowings from Treasury or appropriations will be used to complete WNP-1, WNP-2, and WNP-3. The bill, as amended, will be consistent with Bonneville's other statutory authority which provides that the ratepayers of the Pacific Northwest alone, and not U.S. taxpayers, are obligated to repay the full investment in the Federal Columbia River power system. BPA supports this amendment.

As you are aware, all of the capability of spply system projects 1 and 2, and 70 percent of project 3, is included as a part of the Federal base system of resources which serves the residential, commercial, and industrial electric customers of our region. Both BPA and the Northwest Power Planning Council have confirmed the need for these new resources to meet the load growth of the Pacific Northwest for the balance of this century and beyond. A multitude of legal and other difficulties have precluded the supply system from financing the continued construction of all net billed projects through prudent construction financing.

BPA believes that this bill will help to facilitate short- or intermediate-term financing to complete construction of WNP-1, WNP-2, and WNP-3. The legislation and the accompanying committee report language clarify and reaffirm a number of Bonneville's authorities which will help insure that the BPA investment in the capability of all of the net billed projects will survive the supply system's current difficulties intact. This legislation also should help the region begin to resolve obstacles which currently preclude prudent near-term financing of WNP-3.

The Senate Appropriations Committee report on H.R. 3363 both acknowledges BPA's authority and directs that a number of activities be undertaken to implement this legislation: (*a*) the creation of a new entity under State law that could obtain financing for the construction of these projects; (*b*) the terms of any financing arrangements must be negotiated among BPA, the new entity and the financial community; (*c*) the schedule for WNP-3 construction must be agreed to by BPA and the other project owners; and most importantly, (*d*) the arrangements must be determined to be prudent and appropriate before they are finalized.

There are other major difficulties surrounding the supply system, which we have already heard this morning, that remain outside the scope of this bill. These difficulties include the legal and financial impacts of default on WNP-4/5 bonds, legal claims likely to be leveled at the net billed projects by WNP-4/5 creditors, the legal and economic uncertainty associated with liability for WNP-4/5 costs, and the threats these difficulties represent to the institutional integrity of the supply system itself, the entity upon which we rely to construct and operate the net billed projects.

It is exceedingly important that means be found to strengthen the isolation of the net billed projects from the questions of a potential supply system bankruptcy, as well as from WNP-4/5 claims, so that the $6 billion regional investment in the net billed projects may be managed efficiently and economically for the region's ratepayers. This requires that short-term and intermediate-term financing will be available until the issues are resolved; that long-term financing will be available to complete the projects; that construction and operation of the net billed projects must be free of the uncertainties surrounding WNP-4/5; and that BPA's authority to protect these resources needed to meet load be clear and unambiguous. The current legislation is a step in the direction of addressing these problems.

There have been a number of concerns expressed by committee members as to the possible effects of this legislation on BPA's ability to meet its repayment obligations to the Treasury. Enactment of S. 1701, or the amended section 317 of H.R. 3363, will have no negative effect on BPA's ability to meet these commitments. Indeed, this might have a positive impact by reducing the financial uncertainty which surrounds the future of the supply system net billed plants.

While during fiscal year 1983 the region's recession-reducing loads have not provided us the level of revenue we had expected, BPA is continuing to take steps to enable us to make the total planned payments to the Treasury by 1985.

Our major effort in this regard has been to assure that our rate filing for the period November 1, 1983, to July 1, 1985, will provide sufficient revenues to meet all of our obligations, including Treasury payments. We have designed rates for that period to recover the cumulative deferral through fiscal year 1982 of $152 million, the fiscal year 1983 projected deferral of $83 million, plus the regularly scheduled amortization payments for the fiscal year 1984-1985 period of $226 million for a total repayment of $461 million.

In addition, we are taking other steps to insure attainment of our repayment commitment. Specifically, we are: (1) continuing power marketing efforts in California and the rest of the Southwest to enhance revenues, (2) insuring that we continually reassess and reduce program requirements and costs at every opportunity, (3) improving financial management analysis and information reporting to increase cost control, and (4) attempting to identify feasible and practical means to enhance our fiscal flexibility through such measures as partial revenue funding of capital investments, alternative financing mechanisms for energy conservation and other resource acquisitions, and finally, improved and accelerated billing procedures.

BPA has intensified its efforts to meet its commitments to eliminate previous shortfalls by applying the most prudent management for controlling costs and maintaining the highest fiscal integrity.

This concludes my prepared remarks. I would be pleased to answer any questions that the committee may have.

[The prepared statement of Mr. Johnson follows:]

Testimony of

PETER T. JOHNSON, ADMINISTRATOR
Bonneville Power Administration

Before the

SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES

Seattle, Washington

September 9, 1983

Mr. Chairman, I am Peter T. Johnson, Administrator of the Bonneville Power Administration. I wish to thank you for this opportunity to testify on S. 1701 and section 317 to H.R. 3363 today on behalf of the Administration, and to provide views on the Washington Public Power Supply System (Supply System) and its difficulties.

As I stated before this Committee on August 3 of this year, I commend your decision to hold hearings in the region on this legislation dealing with complex and critical issues concerning the Supply System.

My letter of July 18, 1983, to this Committee, which is a part of the record of the August 3, 1983, hearing on this issue, requests clarification and reaffirmation from the Congress of BPA's authority to enter into arrangements with a new entity to finance the Supply System projects from which BPA has acquired the project capability through net-billing agreements.

In addition, I would also like to refer to a copy of a letter dated August 1, 1983, from the Department of Treasury, which is also a part of the hearing record. This letter suggests an amendment to the language of the bill we are discussing today. This amendment clarifies the Administration's view with respect to BPA ratepayer obligations to repay the full costs of any new financing which might be available as a result of the bill. This language is designed to ensure that no Federal funds in the form of borrowings from Treasury or appropriations will be used to complete WNP-2 and -3, or potentially WNP-1. The bill, as amended, will be consistent with BPA's other statutory authority which provides that the ratepayers of the Pacific Northwest alone--and not U.S. taxpayers--are obligated to repay the full investment in the Federal Columbia River Power System. BPA supports this amendment.

As you are aware, all of the capability of Supply System Projects 1 and 2 and 70 percent of Project 3 is included as a part of the Federal Base System of resources, which serves the residential, commercial, and industrial electric customers of our region. Both BPA and the Northwest Power Planning Council have confirmed the need for these new resources to meet the load growth of the Pacific Northwest for the balance of this century and beyond. A multitude of legal and other difficulties have precluded the Supply System from financing the continued construction of all net-billed projects through prudent construction financing.

BPA believes that this bill will help to facilitate short- or intermediate-term financing to complete construction of WNP-2 and -3, and WNP-1. The legislation and the accompanying Committee report language clarify and reaffirm a number of BPA authorities which will help ensure that the BPA investment in the capability of all of the net-billed projects will survive the Supply System's current difficulties intact. This legislation also should help the region begin to resolve obstacles which currently preclude prudent near-term financing of WNP-3.

As the Appropriations Committee report on H.R. 3363 acknowledges and directs, a number of activities must be undertaken to implement this legislation: (a) the creation of a new entity under State law that could obtain financing for the construction of these projects; (b) the terms of any financing arrangements must be negotiated among BPA with the new entity and the financial community; (c) the schedule for WNP-3 construction must be agreed to by BPA and the other project owners; and most importantly, (d) the arrangements must be determined to be prudent and appropriate before they are finalized.

There are other major difficulties surrounding the Supply System which remain outside the scope of this bill. These difficulties include the legal and financial impacts of default on WNP-4/5 bonds, legal claims likely to be leveled at the net-billed projects by WNP-4/5 creditors, the legal and economic uncertainty associated with liability for WNP-4/5 costs, and the threats these difficulties represent to the institutional integrity of the Supply System--the entity upon which we rely to construct and operate the net-billed projects.

It is exceedingly important that means be found to strengthen the isolation of the net-billed projects from the question of a potential Supply System bankruptcy, as well as from WNP-4/5 claims, so that the $6 billion dollar regional investment in the net-billed projects may be managed efficiently and economically for the region's ratepayers. This requires that short-term and intermediate-term financing must be available, and long-term financing as well; that construction and operation of the net-billed projects must be free of the uncertainties surrounding WNP-4/5; and that BPA's authority to protect these resources needed to meet load are clear and unambiguous. The current legislation is a step in the direction of addressing the problem.

There have been a number of concerns expressed by Committee members as to the possible effects of this legislation on BPA's ability to meet its repayment obligations to the Treasury. Enactment of S. 1701, or the amended section 317 of H.R. 3363 will have no negative effect on BPA's ability to meet these commitments. Indeed, this might have a positive impact by reducing the financial uncertainty which surrounds the future of the Supply System net-billed plants.

While during FY 1983 the region's recession-reduced loads have not provided us the level of revenue we had expected, BPA is continuing to take steps to enable us to make the total planned payments to the Treasury by 1985.

Our major effort in this regard has been to assure that our rate filing for the period November 1, 1983, to July 1, 1985, will provide sufficient revenues to meet all of our obligations, including Treasury repayments. We have designed rates for that period to recover the cumulative deferral through FY 1982 of $152 million, the FY 1983 projected deferral of $120 million, plus the regularly scheduled amortization payments for the FY 84-85 period of $227 million, for a total repayment of $499 million.

In addition, we are taking other steps to ensure attainment of our repayment commitment. Specifically, we are: (1) continuing power marketing efforts in the Southwest to enhance revenues, (2) ensuring that we continually reassess and reduce program requirements and costs at every opportunity, (3) improving financial management analysis and information reporting to increase cost control, and (4) attempting to identify feasible and practical means to enhance our fiscal flexibility through such measures as partial revenue funding of capital investments, alternative financing mechanisms for energy conservation and other resource acquisitions, and improved and accelerated billing procedures.

BPA has intensified its efforts to meet its commitments to eliminate previous shortfalls by applying the most prudent management for controlling costs and maintaining the highest fiscal integrity.

This concludes my prepared remarks. I would be pleased to answer any questions that the Committee may have.

Department of Energy
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

OFFICE OF THE ADMINISTRATOR

JUL 18 1983

In reply refer to: BPA-APP

Honorable James A. McClure
Chairman, Senate Committee on
Energy and Natural Resources
United States Senate
Washington, D.C. 20510

Dear Senator McClure:

The Washington Public Power Supply System (WPPSS) presently does not have sufficient funds to continue construction of its 70 percent ownership share of Washington Nuclear Project (WNP) 3. WPPSS is unable to arrange conventional financing through the sale of bonds because of uncertainties created by WNP 4 and 5 and legal challenges to utilities' authority to participate in net-billing agreements. I have determined that it would not be prudent to use BPA's existing authority to use its revenues to fund the substantial cost for WNP 3 construction at this time. Although WPPSS also is unable to provide construction funds for WNP 2, I have determined that, if alternative financing is not available, it is prudent to use BPA's revenues to fund completion of that project.

The investor-owned utilities which own 30 percent of WNP 3 have suggested a new arrangement which they believe could result in a prudent financing. They propose that a new entity would be created to fund the cost of construction. The new entity would issue bonds, notes, or other evidence of indebtedness. The new borrowings would be secured by BPA's obligation to use its revenues to pay the principal, interest, and related costs directly to the new entity. The effect of this arrangement would be the same as the present arrangement for WPPSS to fund construction costs and for BPA to pay debt service on those costs. However, the method of payment would be different than is provided by net billing.

Whether or not BPA's present authority was intended to encompass the arrangement described by the investor-owned utilities, as a practical matter, financing is not available unless that authority is clarified by Congress. In response to their inquiry, I am requesting a clarification of BPA's authority to enter into the above-described arrangements to fund the construction costs of the net-billed projects. Before implementing such authority, BPA carefully would analyze the rate impacts of such a financing and BPA's requirements for the power from the projects.

Sincerely,

Peter T. Johnson

Administrator

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

August 1, 1983

Dear Mr. Chairman:

The situation at Washington Public Power Supply System is complicated and its resolution is important to the long-term power needs of the Pacific Northwest. Treasury is anxious to work with the Congress to provide clarifying legislation to facilitate the completion of WPPSS Units 2 and 3. We share your sense of urgency in developing a solution that meets the needs of all parties, avoids a bailout of the creditors and equity holders, and minimizes Federal Government outlays.

Treasury has reviewed Section 317 of H.R. 3363 as reported by the Senate and S. 1701, which contemplates that ratepayers in the region that receive the power generated by WPPSS Units 2 and 3, and not the federal government, would be responsible for paying all costs associated with these two plants. This legislation would permit the Bonneville Power Administration ("BPA") to contract with a newly created entity to pay the principal and interest due on securities issued in the public credit markets by that new entity. This new authority would be used to enable completion of the two nuclear power plants (WPPSS Units 2 and 3). Treasury believes that it is important to assure investors and all those concerned with this matter that the intent of the legislation is not to extend federal involvement. Clarity here will help to avoid creating confusion about the intent of this provision. In our view, this purpose can best be secured if the modifications recommended below are adopted. Subject to these modifications, Treasury does not object to the proposed legislation.

First, since Treasury understands that the intent of the legislation is to make the ratepayers bear all costs associated with this project, Treasury believes an amendment that clarifies that intent is highly desirable. Such a clarifying amendment is enclosed herewith. The intent of this additional language, and of the legislative history language described below, is to ensure that no federal funds, in the form either of borrowings from Treasury or of appropriations, be used to complete the two nuclear power plants.

Second, to clarify this position, the following language should be added either in the Conference Report discussing this provision or in clarifying statements during consideration of this legislation:

> The Congress specifically intends that all of BPA's costs associated with the new financing for WPPSS #2 and #3 be recovered in BPA's rates by both BPA and FERC. Thus all funds needed to pay all costs associated with completion of these plants will be borne solely by the ratepayers, and the Administrator may not use funds from appropriations or from the issuance of securities to the Secretary of the Treasury pursuant to 16 U.S.C. 838k(a) to pay for any of the costs associated with completing WPPSS #2 and #3. Further, by incorporating by reference the limitations and restrictions set forth in 16 U.S.C. 839d(j)(1), Congress intends that any contract entered into by BPA shall be secured solely by revenues received by the Administrator from the sale of electric power and other services and that any such contracts or obligations are not, and shall not be construed to be, secured by the full faith and credit of the United States.

If these two conditions are met, the Office of Management and Budget has advised that there is no objection to Section 317 of H.R. 3363 as reported by the Senate and S. 1701 from the standpoint of the Administration's program.

Sincerely,

R. T. McNamar

R. T. McNamar
Deputy Secretary

The Honorable
James A. McClure
Chairman
Senate Subcommittee on Interior
and Related Agencies
United States Senate
Washington, D.C. 20510

The CHAIRMAN. Some people have raised questions with respect to the estimates of the cost to complete unit No. 3. I think those estimates are currently $960 million; am I correct?

Mr. JOHNSON. That's my understanding, yes.

The CHAIRMAN. Have you analyzed those cost estimates?

Mr. JOHNSON. These have been before us for some time. We have passed 2 years without there being any significant adjustment in the budget to complete unit No. 3. I think this is a test to the competency of the current supply system management. They have been meeting the budget and, in fact, bettering budget estimates that deal with the moneys required to complete unit No. 3, providing it can be continued on the schedule effective on May 27 when decisions are made to ramp it down.

Now, there are differences as to what the additional costs, incremental costs, that might be that are consequential to the preservation or more to preservation at this time. I think our estimates are in the neighborhood of $250 million additional. I have heard it as high as $5 or $6 million additional.

The CHAIRMAN. Does that depend on the length and time of delay?

Mr. JOHNSON. I think that would be a direct consequence of the length of the delay, yes.

The CHAIRMAN. Does the increase in the time of delay increase the cost or decrease the cost over time?

Mr. JOHNSON. Our very preliminary analysis indicates that, yes, the longer it is delayed, the higher the costs would likely be.

The CHAIRMAN. I suspect you, and certainly a lot of other people, have been concerned why it's been impossible to market surplus power. If, indeed, this plant were completed during a period of time when there was a surplus, what impact would that have upon your ability to sell the surplus?

Mr. JOHNSON. Senator, that would depend on the circumstances prevailing at a particular time, and if this had proceeded forward on its schedule to come on line in 1976, it would have contributed to the surplus that we project at this time as having at that time. We will just have to analyze it at such time as it does come on.

Let's say, we started in 1 year rather than after the estimated 3-year delay, and I guess, that is before us now. I feel that we would be successful in marketing that firm power at a price adequate to make the decision prudent by the responsible manager, and permit the region to proceed forward. That is a judgment call at the time based upon a number of assumptions.

The CHAIRMAN. Now, the legislative, the report language mandates that you would have to be certain that is is cost effective to see the construction. I understand you have cost-effectiveness analysis under the way; is that correct?

Mr. JOHNSON. That's correct. I, as the administrator, will insist that we make a careful analysis of the several alternatives that might be available to us, when we seek financing, to make sure that it is prudent utility protocol and a good sound business decision.

The CHAIRMAN. When do you expect to have that completed?

Mr. JOHNSON. Within the near weeks.

The **Chairman**. The near weeks, not this week or next week or the end of the month?

Mr. **Johnson**. We were developing this information, and we have been in conversation with the council and they are working on a similar study. I used the term near weeks—it might be 2 or 3 or 4. Certainly, we want to have it completed before the Luce Commission completes their study, which is early October, that would be the latest date it would be available.

The **Chairman**. I think we are talking about the dilemma of whether or not to try and proceed on the legislative schedule that delegates to you both the authority and responsibility, or whether we should retain that, at least optimumly, in the hands of the Congress. Still the cost is great of making these studies complete, so, I would urge that you do that as quickly as possible.

We are going to try and sort out our own jobs. Certainly, there is time to be taken in the legislative process whether we move immediately in the Senate or not. I think it's very likely to be said with some assurance that the final decisions would not be made prior to the time you have the opportunity to complete your studies and to make them available to the public for their scrutiny and their affirmation or criticism, or whatever reaction they may have to the results of your study. I have, personally, wanted to move with a degree of expedition, that some people find difficult to accept, simply because we are nearing the end of the Congress. If we don't act within the next few weeks, we cannot act until sometime next year, which imposes additional costs. Indeed, if there's that additional delay, we will attempt to keep in touch with you and I hope you will keep in touch with us with respect to your analysis; that will be of assistance to us in determining whether or not we should act and in what manner we should act.

Do you have any questions, Senator Gorton?

Senator **Gorton**. No.

The **Chairman**. Thank you very much.

Mr. Hemmingway, council member, Northwest Power Planning Council. Mr. Hemmingway, you may proceed.

## STATEMENT OF LEROY H. HEMMINGWAY, COUNCIL MEMBER, NORTHWEST POWER PLANNING COUNCIL

Mr. **Hemmingway**. Thank you, Mr. Chairman, Members of the Congress.

You have our written statement approved by the council. Let me dispense with reading it and emphasize some of the more important points.

As you are very much aware, the question of WPPSS 1, 2, and 3 in the regional plan was decided by the Congress and those plants were included in the plan as assumed to be constructive resources. They are treated as Federal base resources such as the second powerhouse of Bonneville and other resources that were under construction at the time of the passage of the act of the treaty. As that has turned out, that assumption in our plan, that those resources would be built, may well prove to be heroic, and we do not know how the assurance that we had on the act passed that those resources would be complete.

The council has done some analysis on what would happen if these resources are not completed, and our preliminary analysis indicates that if the region were to leave WNP-1, WNP-2, and WNP-3, they would need to be replaced by a generation which is more expensive than plants Nos. 2 and 3, and any low-billed scenario, medium-low low growth for a higher low growth in the next 20 years. For that reason, the council has endorsed the efforts such as S. 1701 to allow continued financing and construction of the net-billed plants.

Now that the WPPSS No. 3 has been shut down, the council has continued its analysis in a more sohisticated and deeper analysis of the WNP-3 plant. We will analyze in the next 6 weeks a public process, the cost effectiveness of WPPSS 3, the completion of that plant, the optimum restart time for that plant, the probabilities of judgment call of being unable to restart that plant under different circumstances, and as Mayor Royer indicated, the effect of a long-term sale to California on those decisions to restart the plant. The fact that the council is studying the cost effectiveness of WMP-3 should not be interpreted, in our opinion, as a reasonable delay in legislation that will allow the continued financing of these plants. The council's study will be based on a number of assumptions and if the plant is to be restarted under any circumstances, it is our opinion that some new financing mechanism other than the Washington Public Power Supply System will need to be in place.

The decision to provide a financing entity should be a decision separate from the decision to go and restart plant No. 3. The Power Planning Council stands ready as the Congress provides assistance in that decision to restart No. 3. The opinion has been voiced that the council is in a role to help decide whether that plant, or whether those plants, should be restarted. We have the capability to assume that role and we would be happy to accept that role as Congress delegates it.

One further consideration we would like to place before the committee, and that has to do with a financing, potential financing crisis, that is in addition to the one that faces the net-billed generation resources, and that is the financing crisis surrounding the financing of conservation. As you know, the Northwest Power Planning Council's plan relies primarily and foremost on conservation to meet our 20-year needs. With the fallout from the collapse of the Washington Public Power Supply System, the abilities of the region's utilities, particularly the region's publicly owned utilities to finance conservation has been seriously impaired.

The pressure on the Federal deficit raises the possibility that the ability of the Bonneville Power Administration to borrow from the Federal Treasury will be strained to some degree and cause the region an additional financing for its conservation needs. We would hope that any additional financing entities set up to help the net-billed plants would also be authorized to help finance conservation, at least for the State of Washington if not for the entire region, and the Bonneville Power Administration will be authorizing to make payments for that entity for the financing of that conservation.

That concludes my statement. Thank you very much.

[The prepared statement of Mr. Hemmingway follows:]

# STATEMENT BEFORE THE
# ENERGY AND NATURAL RESOURCES COMMITTEE
# OF THE UNITED STATES SENATE
# NORTHWEST POWER PLANNING COUNCIL
# REGARDING S. 1701
# September 9, 1983

Mr. Chairman, it's a pleasure to appear on behalf of the Northwest Power Planning Council at this hearing regarding Senate Bill 1701.

I would like to summarize the information that the Council presented at this committee's August 3, 1983 hearings in Washington, D.C. and then give a status report on a study the Northwest Power Planning Council is doing on the cost-effectiveness of the net-billed WPPSS plants.

First, the Northwest Power Act grandfathered WPPSS plants 1, 2, and 3 into the federal base system because they had been acquired by the Bonneville Power Administration before the passage of the Act and before the creation of the Council. The Northwest Conservation and Electric Power Plan adopted by the Council in April of this year assumes that those plants will be completed and that WPPSS 3 will be in service in 1986 and WPPSS by 1991. However, the Council did not do a detailed analysis of the cost-effectiveness of these plants when it prepared its regional energy plan.

At the August 3rd hearing, the Council stated its support for efforts to find a way to continue construction of WPPSS plant 3 and ensure the completion of WPPSS plant 2. Analysis completed by the Council since the adoption of the plan shows that if the region's demand for electricity grows at a rate at or above the Council's medium-low growth forecast over the next twenty years, and if the three WPPSS plants are not completed, the region would need to build additional power plants beyond those included in the Council's plan. The Council estimated that the cost of building new power plants would be higher than the cost of completing WPPSS plants 2 and 3.

That analysis was based on cost estimates that assumed that WPPSS plant 3 would continue construction. The decision to mothball plant 3 has increased the costs associated with completing the plant and the Council is currently updating its work.

At the hearing, the Council was also concerned about the substantial risks associated with mothballing WPPSS plant 3. Mothballing the plant could increase the cost to complete the plant to the point where the plant might no longer be cost-effective. This risk increases the longer the plant is delayed. Also, an extended mothballing of the plant could lead to the loss of managerial and engineering talent at WPPSS which could increase the cost of completing construction later, and perhaps more importantly, could increase the likelihood that plant 3 would never be completed. Mothballing could also increase the possibility that technical or regulatory changes could make it harder to license the plant. And, mothballing increases the financial risks borne by the sponsors of the plant.

In our testimony, the Council also stated that it recognized that the question of need for power and risk of delay had never been examined in public in connection with WPPSS plant 3. The Council believed a public examination of these issues, as they relate specifically to the scheduling of WPPSS plant 3 was important -- particularly if WPPSS plant 3 is mothballed for any length of time.

Events over the last month have raised questions about whether plant 3 can, in fact, continue under construction. It has been reported that a number of the top management officials have left plant 3 and that some of the engineering and technical staff for plant 3 have also left to find jobs elsewhere. Since June, the construction manpower levels at plant 3 have been significantly reduced. And the plant is rapidly reaching a "mothballed" condition. For these reasons, the Council is concerned that much of the risk and cost ecalation due to mothballing has already been incurred. If this is the case, the region needs to focus on the cost-effectiveness and schedule for the resumption of construction or the termination of plant 3.

Given the recent events, a number of organizations in the region have begun to ask the question: When does it make sense to resume construction of the plant? As a result, the Council has directed its staff to conduct a detailed cost-effectiveness analysis of WPPSS plants 1, 2, and 3 to determine how the cost of these plants compare to other alternatives available to the region, and also to determine the optimal schedule for the construction of the three net-billed WPPSS plants.

I would like to report on what the Council's study will entail and when it will be completed.

The first step is to determine the costs of mothballing WPPSS plants 1 and 3, the cost of maintaining these plants in a condition where they can be restarted and licensed, and the remobilization costs associated with restarting construction on the plants. The Council has been consulting with WPPSS, Bonneville Power Administration, PNUCC, Public Power Council, and environmental and consumer groups to try to reach a consensus on the best information available on these costs. The Council will make a judgment based on all the information available to us on the most likely cost associated with mothballing, preserving, and restarting WPPSS plants 1 and 3. If there's no regional consensus on these costs, the Council will study a range of costs as part of its analysis.

The second step involves using the Council's planning tools to determine the optimal schedule for WPPSS plants 1, 2, and 3 compared to other resources. The Council uses a sophisticated computer model to assist in the selection of the lowest cost resources available for meeting energy needs over the next twenty years. This tool schedules the cheapest resources first and then adds more expensive resources until projected energy requirements have been met.

As part of this step, the Council will also identify other schedules for completing the WPPSS plants. Current plans call for studying an immediate restart of WPPSS 3, with the restart of WPPSS 1 based on the optimal schedule discussed above. The second alternative will include a gradual restart of WPPSS 3 with an overall lengthening in the construction schedule. We will evaluate the current BPA plans to complete WPPSS plant 3 in 1989 and plant 1 in 1991. The Council will also look at the alternative of terminating WPPSS plants 1 and 3 to determine the cost of additional resources that would have to be built to replace the plants.

I'd like to note, Mr. Chairman, that the Council is also prepared to run other alternatives that may be identified at our consultations with interested parties or at public comment sessions at the Council's meetings.

The third step involves comparing the overall system cost of these alternatives to see which is cheapest. To do this, the Council uses another computer tool called the Systems Analysis Model, that simulates how various resources interact with the hydroelectric system in the Pacific Northwest. This model also determines the cost associated with each resource mix. The Council will compare the overall cost of all the resources in each alternative studied to determine which alternative provides the cheapest mix of resources for meeting the Council's range of future energy needs.

Step four will focus on the very important question of the risk associated with the various alternatives being studied. The Council realizes that the optimal schedule for the WPPSS plants may have substantial risks associated with prolonged preservation of the plants. For instance, if it turned out that a three-year delay in WPPSS plant 3 was the cheapest alternative, then the Council would look at the cost of that same alternative if the delay in the plant caused the termination of the plant.

It's not possible for the Council to quantify the risk of losing WPPSS 3 if it is mothballed. The Council can assess what level of risk would make it cheaper to restart the plant immediately.

Step five will evaluate the incremental impact of a firm, long-term sale outside of the region on the decisions concerning the optimal schedule for the cost-effectiveness of Unit 3. It should be noted that an out-of-region sale by itself will not make one resource more cost effective over another. This result occurs since all resources can potentially be sold outside the region given that a firm sale has been negotiated. Those resources that are cheapest to build and operate would be the most cost-effective resources to support a firm long-term sale.

Step six will evaluate the short and long-term rate impacts of decisons concerning the schedule for No. 3. The staff is planning to use the Council's load forecasting system to evaluate the rate impacts on each of the customer groups of alternative scenarios concerning the construction of WPPSS 1, 2, 3.

Given the regional interest in the Council's analysis, we are accelerating the schedule for this study as much as possible. However, we believe that it is very important to take enough time to get the best information that is available and to involve the public in the analysis of this information.

At the Council's September 6 and 7 meeting, the staff reported on the information we have gathered so far on the cost associated with mothballing the WPPSS plants. The Council received public comment on this information as well as suggestions for alternatives that should be studied as part of the Council's analysis.

At the Council's September 21 and 22 meeting, the staff will present preliminary results of steps 2 through 5 and the Council will seek public comment and identify additional alternatives that need to be studied.

On October 5 and 6, the staff will present revised analysis incorporating Council decisions and public comments. And at the Council meeting on October 19 and 20, the Council expects to be in a position to make a recommendation on the appropriate schedule for the three net-billed WPPSS plants.

The Council hopes that this analysis will be useful to the Congress as it works to resolve the WPPSS problems.

The Council would not recommend that the committee delay consideration of this legislation pending the outcome of the Council's cost-effectiveness analysis. However, the Council does believe that any decision to restart construction of WPPSS plants 1 and 3 should be consistent with the Council's plan, including revisions to the plan that may take place as a result of the cost-effectiveness analysis we are conducting. -

Mr. Chairman, I'd like to raise one other issue that the committee may wish to consider as it works on S. 1701. Both Senate Bill 1701 and Section 317 of the Interior Appropriations Bill are directed at finding a way to address the financing problems currently being experienced by WPPSS plants 2 and 3. The committee should also be aware that there may be a need to find an alternative mechanism to finance the conservation measures in the Council's plan.

There are currently two alternatives for providing long-term financing for conservation and other resource programs that are consistent with the

Council's plan. The first involves direct borrowing by the utilities in the region. The second was authorized by Congress in Section 8(c)(3) of the Pacific Northwest Electric Power Planning and Conservation Act of 1980, which authorizes the creation of a $1.25 billion revolving fund for the purpose of providing funds for conservation and renewable resource loans and grants.

The default on outstanding bonds for WPPSS plants 4 and 5 by 88 Northwest utilities has raised serious questions about whether those utilities will be able to borrow money in the near future for other purposes. As a result, we understand that Bonneville has requested additional authority to borrow from the U.S. Treasury under Section 8(c)(3) of the Act. The Council is committed to working with Congress and the Administration to secure additional borrowing authority. However, the outcome of this effort is not clear at this time.

As a result, Bonneville has stated that it cannot assure the implementation of 74 of the 96 conservation action items identified in the Council's two-year action plan. In addition, the Council and Bonneville are currently consulting on the appropriate way to demonstrate the capability to implement new conservation programs in the commercial, industrial, and agricultural sectors. Depending on the outcome of these discussions, additional Treasury borrowing may be needed.

Given the uncertainty associated with the two alternatives currently available for financing conservation and other resources that are consistent with the Council's plan, this committee may wish to consider authorizing the entity referred to in this legislation to also finance conservation and resource programs that are consistent with the Council's Northwest Conservation and Electric Power Plan. In the near term, such authority could provide a mechanism that would allow the region to begin implementing the Council's conservation plan. In the longer term, such authority would provide additional flexibility for the region to finance conservation and other resources.

Thank you for this opportunity to testify before this committee. I'd be happy to answer any questions.

The **Chairman.** I notice on page 5 of your statement you stated, "It's not possible for the council to quantify the risk of losing WPPSS 3 if it is mothballed." Then you went on to the next sentence to say, "The council can assess what level of risk would make it cheaper to restart the plant immediately." That is within the context of what studies you are undertaking at the present time, these studies that are underway; is that not correct?

Mr. **Hemmingway.** That's correct.

The **Chairman.** Will this second aspect that I have referred to now be include in the statements that you will be making at your September 21 and 22d meeting?

Mr. **Hemmingway.** We will only have preliminary results at our September 21 meeting. More likely by our first meeting in October, we will be ready to make definitive statements.

The **Chairman.** I understand that you will be making some public statements concerning the results of those studies at the September 21 meeting.

Mr. **Hemmingway.** We will have some preliminary analysis done. As you know, our work is done in a public form. The council makes no conclusion without hearing from the public. I don't want to assure the committee it will be available by the September 21 meeting to have definitive results.

The **Chairman.** I understand that. The reason I brought it out in that manner is that you will be presenting a statement for public comment.

Mr. **Hemmingway.** Yes.

The **Chairman.** And it is that estimate which I make reference to in terms of what the results of the studies will be because it will be preliminary result. I understand that.

Mr. **Hemmingway.** Yes.

The **Chairman.** The public will be asked to comment on that, but that information, whatever the results of your preliminary analyses have been to that date, will include this assessment that I make reference to with respect to what level of risk that will make it cheaper to restart immediately.

Mr. **Hemmingway.** Yes, any statement we put forward about the cost effectiveness of those plants and desirability for restart, we will make a statement about the risks associated with not being able to restart those plants because of the other problems.

The **Chairman.** Will you be in a position as early as September 21 to present a preliminary assessment of what the additional costs wil be with different periods of delay?

Mr. **Hemmingway.** If I can look to my staff to see how far their analyses would be on that date. Yes, we will be able to.

The **Chairman.** The answer is yes and, again, recognizing that is preliminary and subject to the public comment and the public interest, that will be very helpful to us because if it's a matter of fact that delay does not cost, that's somewhat different than if delay does, indeed, escalate the costs; we want to take a careful look at that.

Will your analyses include the cost of the State of Washington for such things as unemployment compensation for those who are laid off from their employment in those jobs?

Mr. HEMMINGWAY. We have not specifically directed the staff to look at those questions, but I would hope that our analyses would include costs that are not directly attributed to the cost.

Senator GORTON. On page 6 of your estimate, you recommended that the Energy Committee not delay consideration of this legislatio depending on outcome of your cost-effectiveness analysis, which obviously is contrary to the representation of some of the other witnesses here today. Do you go on to say that no decision to restart construction of either plant 1 or 3 should be made? That is not consistent with what the council has planned. Would you amplify on that inconsistent statement? Do you believe that the form of the legislation would not be impacted in any way by the range of decisions which you feel are likely to come out in your cost-effectiveness study?

Mr. HEMMINGWAY. If all the cost-effectiveness studies that we do show that it was not cast effective under any circumstances to restart plant No. 3, than, perhaps, considering this legislation further would not be desirable. The likely result is going to be that there will be some circumstances where the restart of this plant would be cost effective in other circumstances which may not be cost effective.

If the circumstances arise, that it is cost effective to restart No. 3, then, the financing mechanism ought to be in place for that, so that the refinancing can take place expeditiously. If it takes a year or more to set up the financing mechanism, then, I would say, probably, we have lost our ability to restart our plant. For that reason, we think that it is best to establish the ability to set up the financing mechanism and establish a procedure by which the cost effectiveness decisions would be made in the region. We hope that will involve council.

The CHAIRMAN. You made reference, Mr. Hemmingway, to something that I think is important to understand. This is a judgment on my own part, not necessarily shared by other members of the committee. On page 7 of your statement you referred to the Bonneville's attempts to get the additional authority to borrow from the U.S. Treasury.

It is my own judgment that it is extremely unlikely that Congress will grant that authority in the immediate future for the construction of these powerplants.

You have addressed separately as a part of that how we will finance the projects, whether additional authority may become necessary to provide financing for conservation, which is a separate but very closely related subject; and again, I would say that the prognosis for direct borrowing from the U.S. Treasury is not at all good. The pressure on the budget today is such that we are not very likely to have that security from people outside this region with respect to going to the Treasury for direct borrowing authority. I just thought it might be well to add, and it's a public hearing record here, that what we do, at least in the short-term, is more likely to be whatever we can do in self-help, and that will be in terms of direct contribution and direct borrowing authority.

Mr. HEMMINGWAY. We hope that if Federal Treasury borrowing in the amounts needed is not available, that there will be other financing mechanisms available. Right now with the problems, both the privately owned and particularly the publicly owned systems of the region are having, their ability to finance for any purpose is severely restrained.

The CHAIRMAN. Thank you very much. I appreciate your statement, and look forward to hearing the results of the preliminary analysis.

Senator GORTON. Mr. Chairman, I have been asked to apologize for Congressman Morrison's absence. He is in another part of the State. He will submit, for the record, a written statement.

The CHAIRMAN. We will next hear from panel No. 1, Marvin Williams, president, Washington State Building and Construction Trades Council, Robert Dilger, executive secretary, Washington State Building and Construction Trades Council, Rick Bever, legislative consultant, Washington State Plumber and Fitters Association.

## STATEMENT OF MARVIN L. WILLIAMS, PRESIDENT, WASHINGTON STATE LABOR COUNCIL

Mr. WILLIAMS. Mr. Chairman, I am Marvin L. Williams, president of the Washington State Labor Council, AFL–CIO. The Washington State Labor Council is comprised of the AFL–CIO affiliated unions and is the largest labor organization in the State. I wish to thank you for this opportunity to testify on S. 1701. We applaud the efforts of the Senate Committee on Energy and Natural Resources and the Senators sponsoring S. 1701 to assist the Pacific Northwest in resolving the problems of the Washington Public Power Supply System.

On July 22, 1983, the executive board of the Washington State Labor Council voted unanimously to support the amendment contained in section 317 of H.R. 3363, the Department of Interior and related agencies' appropriation bill for 1984. The executive board felt that completion of WNP No. 3 as soon as reasonably possible is important for the jobs it will preserve and the energy it will produce. That energy will be needed in the future to maintain the region's economic growth.

The WPPSS situation has inflicted huge job losses on Washington State, compounding the job losses in aerospece, forest products, and residential construction. According to WPPSS, over 8,500 construction jobs have been lost since the WPPSS projects began to unravel. Despite some signs of recovery in the forest products sector, July 1983 unemployment in the Tri-Cities area, site of WNP Nos. 1, 2, and 4 was 13.3 percent. In Grays Harbor County, site of WNP Nos. 3 and 5, the unemplyment rate in July was 13.4 percent. The overall unemployment rate in July 1983 for the State was 10.5 percent.

We are asking for help in the form of clarification and extension of Bonneville Power Administration's authority to use its revenues to back up the financing necessary to complete the net-billed projects. We are not asking for an appropriation or bailout. We seek the necessary Federal enabling legislation that will permit the Northwest to solve its own difficulties. The costs incurred to complete the net billed projects will be paid by the electric power consumers of the Northwest energy system.

We believe that the net-billed projects should be completed, as the Northwest Regional Power Council has determined in its regional power plan. We believe also that the costs of delaying construction exceed the costs of completing WNP No. 3 as scheduled.

We believe that resolution of the WPPSS problems will be impossible without full consultation among all of the affected groups and accordingly are pleased that the committee has scheduled this hearing in Seattle to allow concerns to be expressed.

I want to thank the committee for this opportunity to state for the record the support of the Washington State Labor Council for S. 1701.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Williams.

Mr. Dilger?

## STATEMENT OF ROBERT L. DILGER, EXECUTIVE SECRETARY, WASHINGTON STATE BUILDING AND CONSTRUCTION TRADES COUNCIL

Mr. DILGER. Thank you, Chairman McClure, Slade Gorton. Looks like Rod Chandler stepped out briefly. We want to first thank the committee for coming to Seattle to hold this hearing. I think it's very important to clear the air on the issues so we get the real issues before the people, the press, and the public in general.

I'm Robert Dilger, representing the Washington State Building and Construction Trades Council. The workers who have been unemployed, needlessly we feel, because of the lack of this legislation and lack of continuation of construction of No. 3 are members of this council. We represent about 60,000 members in the State of Washington. In many cases, many districts, in the district in which plant No. 3 is presently under construction and plant Nos. 1 and 2, in the Hanford areas are looking at 40-, 50-percent unemployment in those areas. That is a tragic affect on the State's economy. I think it was just stated that Washington State is now hovering right up among the top two, three in the nation of unemployment. It's time we get going to get some sensible solutions to the energy problems and to the WPPSS situation, WPPSS completion, that will help this problem.

I would like to refer to S. 1701 and the appropriation, the amendment to the appropriation bill as the sensible WPPSS solution, not a super-WPPSS, but a sensible WPPSS, and I think if we start calling it a sensible WPPSS we can understand what is meant and the reasons for the legislation before Congress today. If this legislation is not a proper means in which to accomplish what everybody has testified here today, to get the economy going and people back to work, meet our energy needs, then what is? What is the answer? Are we going to romance, love this, and talk this to death so that a year does, so that it's not cost effective only to bring another plant of some other source to meet the energy needs, at a cost to the ratepayers of this State that they haven't even started to consider yet? I say let's go with what the project is, what the Bonneville Power Administration has said, the Governor of the State of Washington said, the Northwest Planning Council has said and sensible people of the State who have demonstrated time and time again the needs of plants 1, 2, and 3 are essential for our energy future in the State of Washington.

We urge you to please act as speedily and not to be confused back in Congress by what may look to appear to be a public versus private fight out here in the Pacific Northwest, which is confusing to us who like to go back to work and make an honest living, pay taxes, help to whole situation. Let's get down to completing the plant and pass the legislation you have introduced Senator and we'll be happy.

The **Chairman**. Thank you.

### STATEMENT OF RICHARD D. BEVER, LEGISLATIVE CONSULTANT, WASHINGTON STATE ASSOCIATION OF PLUMBERS AND PIPEFITTERS

Mr. **Bever**. Thank you, Mr. Chairman, Senator Gorton. I am Rick Bever representing Washington State Plumbers and Pipefitters.

As you have indicated and certainly has been demonstrated here today already, there is certainly polarization on the issue of opinions on this issue. Part of that we believe is because the issue is too complex for many. They haven't taken the time to understand what the issues really are and many people are to the point where they are saying, I've made up my mind, don't bother me with facts. We need leaders not followers, people in positions of authority who do understand this issue to start taking the lead and we commend your committee for doing just that. We hope that you keep it up.

The issue, as far as we are concerned, is jobs, not just jobs now but jobs for the next 20 years or longer. Conservation creates no jobs of consequence and as we have heard today, reading in the paper recently, there is lack of money for the conservation portion of this program as well. Failure to be responsible in solving the WPPSS debts certainly means higher interest rates. We have seen that. The State has had to pay a considerable price in that regard already. Higher interest rates mean fewer construction projects, not just now, not just talking about plant 3 at Satsop, but all kinds of construction projects all over this State and this region. We right now have 70 percent unemployment in some areas of our craft and it's not going to get better unless the economy of this Northwest region gets better. Our 10,000 members in the State of Washington support this legislation allowing completion of plant 3 and would support any responsible solution to the entire WPPSS problem and we thank you very much.

[The prepared statement of Mr. Dilger and Mr. Bever follows:]

# TESTIMONY ON S. 1701 and MCCLURE AMENDMENT
# TO INTERIOR APPROPRIATIONS BILL
# TO BE SUBMITTED TO SENATE ENERGY COMMITTEE
# HEARING ON SEPTEMBER 9, 1983
# SEATTLE, WASHINGTON

Our testimony today concerns itself mainly with WPPSS Plants 2 and 3, which are currently under construction and are both plants having major federal investment funds at risk.

Our concern is over the loss of jobs being suffered now because of termination of construction on Plant 3 and the domino effect it will have on Plant 2, and over the long term effect on the economy of Washington State and the whole Northwest region resulting from failure to provide the energy resources needed for future industrial and residential development.

Prior to halting Plant 3 construction, Plants 2 and 3 each employed over 4,000 people. Plant 3 was expected to continue to employ that number through 1985. Plant 2 is nearer completion and is phasing down employment beginning next year, at the rate of about 400 employees per month. Each of the plants paid a weekly payroll of millions of dollars. What is going to happen if these plants are not completed?

Instead of 8,000 people spending millions of dollars each week in the local and state economy, we will add thousands to the unemployment rolls. We will be converting productive, taxpaying citizens into non-productive tax draining citizens. Local businesses will have to lay off employees who are no longer needed because of the reduced economic activity. Costs to the state's unemployment compensation fund, already going broke, will increase drastically. The state will pass on those increased unemployment costs to employers and employees still lucky enough to be working.

Instead of two projects paying 60 to 70 million dollars in taxes each year, we will have useless, abandoned hulks draining tax money to pay already incurred debts, with no possibility of every generating electricity which could be sold to help pay those costs. The loss of tax revenues to the state and its political sub-divisions will result in further unemployment and higher taxes. In Grays Harbor County, for instance, 80 percent of sales tax revenue came from WNP-3 activities. Grays Harbor County officials were predicting tax revenue of 2.4 million dollars from WNP-3 in 1983 if the project had continued at its planned level. County

Commissioners have already put 1.2 million dollars of that expected revenue in their 1983 budget. If that revenue fails to materialize, Grays Harbor County will have over a million dollar budget shortfall. This will mean cutbacks in county programs and the layoff of county employees. Grays Harbor County has a June, 1983 unemployment rate of 14.6% (statewide, June, 1983 figure is 10.9%): Washington State has the 10th highest unemployment in the nation.

Benton County has no firm projections of expected tax revenue from WNP-2 during the 1983 period. Since WNP-2 is largely already constructed, it is not generating the taxes that WNP-3 was generating. Currently, there are about 4,000 people working at WNP-2. This will be phased down to about 2,500 by December of 1983. The Benton County area will certainly feel any further reduction of employment in that area.

Other taxing districts, such as school districts, also stand to loose a significant amount of tax revenues if WNP-2 or WNP-3 are not completed. The state of Washington was expected to get between 20 and 25 million dollars in taxes from WNP-2 and WNP-3 combined in 1983, or about 50 million dollars for the next biennium.

Unemployment in the building trades crafts is running close to 50% in Washington State. We need the jobs associated with the completion of WPPSS Plants 2 and 3. Our State Employment Security Department estimates that for every construction job there are 2 to 4 support jobs created. This is vital to our economic recovery.

We are very concerned at the long range implications of failure to complete WPPSS Plants 2 and 3. Our Northwest Regional Power Planning Council has included the power expected from Plants 2 and 3 in their long-range plan for our area. A plan which, in the opinion of many, already puts far too much reliance on future conservation of power. Conservation provides little skilled employment and is difficult, if not impossible, to achieve except through price increases. It is exactly this issue of power price increases which all the ratepayer groups are fighting WPPSS about.

We believe there will be a need for all of the power produced by Plants 2 and 3. We have a history of underestimating our power needs. About 50 years ago when our great northwest hydro-electric dam projects were being proposed, critics claimed there would never be a need for the amount of power to be generated. They asked if we were going to sell our electricity to the jackrabbits. We all know the great benefit our hydro power has turned out to be. We have some of the lowest power costs in the nation and we will continue to have some of the lowest power costs even after completion of WPPSS 2 and 3.

Without the power represented by these plants there will be no long term industrial development, no related residential and commercial development and no jobs in the building and construction trades.

Thank you for the opportunity to offer this written testimony.

Jointly submitted by:

Robert L. Dilger
Executive Secretary
Washington State Building and Construction
Trades Council

Richard D. Bever
Legislative Consultant
Washington State Association of Plumbers
and Pipefitters

The CHAIRMAN. Thank you very much. I appreciate the statements you have made and I appreciate the fact that you have been brief in those statements, focusing on the concerns that your organizations have directly expressed.

It's probably not appropriate for me to interject my own judgment at various points throughout the hearing today and I will not do that very often, but I'm reminded of the fact that many years ago we embarked upon Federal projects that harnessed rivers and created power, energy for the future growth of this region; and almost everyone thinks that has been good. They have created energy surpluses with which we have had to deal most of the time since the mid-1930's. Most people believe that's been good for the region, dealing with those surpluses, as troublesome as they have been sometimes, rather than dealing with shortages, as we have had various other things we had to do.

One of the factors that grows from that surplus and from that abundance of energy for the region is affordable rates, and the reason I mention it now is that it has spawned a direct service industry in the area. DSI's are an important component of the economic life of this area. The availability of power rates which they can afford to pay and stay in business will also have a tremendously important affect on the employees and livelihood of many of the people throughout the Northwest. That rate structures of the Bonneville Power Administration are under current assault from all of the sources is forcing us very close to the point where we may indeed lose some of that basic industry from the Northwest, and probably from the entire United States. That will have, again, a multiplier effect upon the problems this region is confronting; and I assume that's a matter that has been considered by the Building Trades Council or labor groups.

Mr. WILLIAMS. We are concerned about those problems. We are going to have to face them, no question that power rates will probably be increased. We have a number of plans. We are concerned about it. We will have to face that problem, but we think the real future needs for abundant supply of power calls for revisions which we received so far.

The **Chairman**. Thank you very much.

Senator **Gorton**. Thank you all very much.

The **Chairman**. Thank you for your time.

Now we'll hear from panel No. 2, Jim Lazar from Fair Electric Rates Now, Ed Zuckerman, Progress Under Democracy, Steve Zemke, Don't Bankrupt Washington, Barbara Zepeda, Washington Democratic Council, Jim Boland, Washington Voice of Energy, Dan Ashburn, Puget Sound Chapter of Washington Voice of Energy.

## STATEMENT OF JIM LAZAR, RESEARCH DIRECTOR, FAIR ELECTRIC RATES NOW

Mr. **Lazar**. Thank you, Mr. Chairman and members of the committee. My name is Jim Lazar. I am on Olympia-based consulting economist, appearing before you as research director for Fair Electric Rates Now [FERN].

My testimony today will focus on the impacts this legislation would have for the ratepayers of private utilities. You will hear from the other witnesses who will share the concerns of public utility ratepayers.

First, I would like to bring to the committee's attention the fact that WPPSS revised estimate of costs to complete plant 3, based on four restart dates and different construction scenarios. The least expensive, assuming a January 1984 restart date, therefore the least amount of inflation during construction period is $1.7 billion in direct construction costs. We can add about another $900 million in construction or interest to get a total cost of the project. Assuming a July 1984 restart date, which I think most people see as closest to being achievable, given time for your legislation and the State legislation, cost-effectiveness studies required, would be a $2.025 billion direct construction costs and we have estimated an additional $1.17 billion on the interest during construction for a total cost to complete, total avoidable costs of $3.2 billion. That's an August 17 WPPSS analysis. The original budget for WPPSS No. 3 was $789 million. While WPPSS may describe plant 3 as being 75 percent complete, the fact is that they are $2.4 billion further from completion than they were when the project was begun. If you exclude the costs of plant 3 and look at the costs yet to go through the Regulatory Commission to give to the private utilities, a return on the investment they have made so far, just the implemental costs to complete and operate plant 3 is 14.6 cents per kilowatt hour. If you include the costs already expended, $0.29 a kilowatt hour. These are estimates on the 1990 operating year and detailed on tables 1 and 2 on page 3 of my testimony.

Now, if the project is deferred for 3 years as Bonneville recommended based on the analysis they did make available, Puget Power and other private utilities can buy power from Bonneville at the resources rate using from the surplus and giving Bonneville a better price than normally and more money for the U.S. Treasury and lower rates for aluminum users and private utilities. The resources rate which is estimated to be between $0.04 and $0.05 a kilowatt hour in the same timeframe. The savings per kilowatt hour per year for Puget Power would be about $68. The savings for Washington water power would be about $149 a year. Portland General Electric's savings would be $134 a year, and Pacific Power $102 a year. If we assume that the private utilities would not be allowed to charge ratepayers for the funds invested to date, if the plant is terminated, the savings to ratepayers are much greater, but just looking ahead, assuming that private utilities will get their investment, their ratepayers, our members would be far better off as we can see on table 4.

The region's need for power has been reassessed downward annually since 1970. BPA recently released their 1983 forecast; it is down about 900 MW, or more than the output of WPPSS No. 3, from the 1982 forecast. Actual loads continue to underrun forecasts. Since the new BPA forecast was released, 1 month of data has been published, for the month of July 1983. In that month, power usage in the Northwest Coordinated system was 7.3 percent below forecast.

Total energy generation for load in the region is reported monthly by BPA. At the end of each operating year—July-June—a summary is published. Table 5 shows the annual power usage in the Northwest Coordinated system since 1977.

It is evident that the load growth once predicted for this region is not actually occurring. The question remains as to what will occur in the future. Every responsible analysis shows that the region has a surplus for at 10 years, even without completion of WPPSS No. 3, even under below-average hydro conditions. It would appear to be logical to defer construction of plant No. 3 until the need for the output of No. 3 is clear. Deferral preserves the option of completing the plant, if it is needed, but completion eliminates the option of terminating the plant, if termination is the least cost option for the region.

The power from WPPSS No. 3 can be sold outside the region if there is sufficient intertie capability to move the power south. However, it is quite clear that this power cannot be sold at anything resembling the cost of completion and operation of WPPSS No. 3. As a result, if the plant is finished, and the power exported, regional ratepayers will face rate increases to subsidize the export.

Typically, rates to California have been lower than rates for sale of power within the region, since the California utilities are in a position to bargain with surplus regions, including Arizona, New Mexico, Nevada, and British Columbia for bargain-basement rates.

Consequently, even if a sale of surplus power can be arranged outside of the region, it would be expected to be at an average rate lower than the estimated new resources rate within the Northwest. As a result, a surplus power sale would be of little benefit in offsetting the massive cost of completion of WPPSS No. 3.

The regional intertie is very limited in capacity. While upgrades are possible, and even perhaps advisable, the regional hydrosurplus in most years means that thermal plants must be shut down much of the time. Table 3 of Mr. Lazar's response to Senator Metzenbaum's questions details the proportion of the time that the hydrosurplus exceeds the regional intertie capability. Under load/resource balance, the intertie is flooded and thermal plants must be shut down about 25 percent of the time; given a 1,000 MW firm surplus, the proportion increases to 37 percent of the time.

As a result, if WPPSS No. 3 were completed, the region would be in a position of selling the power part of the time at a fraction of the cost of production, and being forced to curtail operations altogether as much as one-third of the time when operation would be desirable. This is hardly a moneymaking proposition.

There is no question that delay will add to the construction costs of plant No. 3. WPPSS estimates a $35 million annual cost of preserving the plant in a state of readiness for ultimate completion. In addition, there are costs associated with demobilization and remobilization of the work force, but these have largely been incurred already.

The costs of delay, however, are trivial compared with the cost of early completion, and sale of the power outside the region at a loss. Table 6 details the annual revenue from sales of power at 40 mills per kilowatt hour and at 60 mills per kilowatt hour, an optimistic surplus sales price, and costs of the power at $0.10, and $0.16 per kilowatt hour, two representative estimates of the cost of completion and operation of WPPSS No. 3 in the 1988–92 period. In addition, the table shows the cumulative loss over 3 years of operation, to compare the loss the region would incur due to completing No. 3 on schedule, with the costs for the 3-year delay recommended by Bonneville. As is evident, the loss to Northwest ratepayers from completion ahead of need, and sale of the power outside the region, totally dwarfs the costs of delay noted by WPPSS.

In addition, the cost of financing for WPPSS is expected to decline over the next few years, assuming that BPA's legal authority to back the net-billed bonds is upheld by the courts. Each of the three studies of WPPSS default indicated that interest penalties to Northwest borrowing would decline with time; while they will not be eliminated by a 3-year delay, such a delay would significantly reduce financing costs; this savings alone would likely offset all of the costs of delaying the project.

Finally, a delay would result in a project which was more useful to the Northwest region. By delaying construction, a larger proportion of the useful output of the plant, during its lifetime, would be needed here in the region. As a result, the region would get more years worth of useful energy from our investment. The analysis in table 6 measures the loss to the region only against the incremental cost to complete and operate the plant; no cost is included for the roughly $2.5 billion already invested in WPPSS No. 3 by regional ratepayers.

Will completion of No. 3 enhance BPA's ability to repay their obligations to the U.S. Treasury? No. Completion of WPPSS No. 3 will add at least twice as much to BPA costs as to BPA revenues. The only possible result would be greater instability in BPA net revenues, a greater likelihood of BPA deferrals, and an increased federal deficit. This issue is dealt with in detail in the Jim Lazar's response to Senator Metzenbaum's questions.

Table 6 shows that the difference between the added revenue, from surplus power sales, and the added cost from completion and operation of WPPSS No. 3 could equal more than $2 billion over the 3 years for which deferral has been recommended. An effort by

Bonneville to recover their 70-percent share of this loss from regional ratepayers would result in sharply increased rates, and price response to those rates could well impair BPA's ability to make amortization payments as scheduled to the Treasury.

Unemployment in the region will increase if construction is resumed. Completion of WPPSS No. 3 ahead of need will result in higher electric rates than if the 3-year deferral is continued. The higher rates will reduce regional disposable income, which is spent on job-producing consumption. Virtually all of the WPPSS-caused rate increases will leave the region, for bond debt service, nuclear equipment, nuclear fuel, and insurance. The loss to the local economy translates into a loss of local jobs.

For each million dollars of lost disposable income to the region, approximately 33 direct jobs, and 67 indirect jobs are lost, according to generally accepted relationships between income and employment, and standard multiplier effects. Given the estimated loss to the region in table 6, of $260 to $780 million a year from early completion, the region could lose 26,000 to 78,000 jobs for 3 years if work is resumed. These would never be recovered, but deferral, with later completion of the project, would result in construction employment exactly equal to what would occur if construction resumed immediately.

Why haven't the region's private utilities provided any technical analysis to support their argument for early completion? Bonneville, WPPSS, ratepayer organizations, public utilities, the city of Seattle, and the regional council are all providing technical studies to support the decisionmaking process over WPPSS No. 3. All of these are being made available for public review and analysis. The private utilities have been notably silent—we must presume that they realize that the numbers just don't support their case.

Their refusal to come forward with useful analysis should be dealt with very simply. What they say should be ignored until they provide analysis to support it, and until there has been sufficient time to review that analysis.

Early completion of WPPSS No. 3, as facilitated by S. 1701, is clearly not in the interests of regional ratepayers, public or private. The deferral which Bonneville has recommended should proceed. With the deferral, we can be certain that Bonneville will have lower rates, the region will have higher disposable income, and our ability to meet our debt obligation to the Treasury will be enhanced.

FERN, on behalf of our members and supporters, urges you to reject this legislation at this time, and allow the regional council and the region's utilities sufficient time to analyze where we are, and how best to get where we want to go.

Thank you for your interest, and your consideration.

The CHAIRMAN. Thank you, Mr. Lazar.

[The prepared statement of Mr. Lazar follows:]

**FERN**
Fair electric rates now.

TESTIMONY OF JIM LAZAR, RESEARCH DIRECTOR
SENATE ENERGY AND NATURAL RESOURCES COMMITTEE
SEPTEMBER 9, 1983

Mr. Chairman, and members of the Committee:

My name is Jim Lazar. I am an Olympia-based consulting economist, appearing before you as Research Director for Fair Electric Rates Now (FERN).

Fair Electric Rates Now (FERN) appreciates the opportunity to comment on the proposed legislation to allow alternative financing methods for continued construction of WPPSS nuclear plant #3. In particular, we wish to thank those members of the Committee from outside the region, for devoting some of your precious time to hear from the ratepayers of the region, who will be asked to bear the burden which S-1701 would help to create.

FERN has represented ratepayers in numerous forums since 1978. We have been active in private utility rate hearings before the Washington Utilities and Transportation Commission, and in numerous public utility proceedings. We have intervened in the rate process at Bonneville, and participated in the development of the Regional Power Plan. FERN is supported entirely by voluntary contributions from individuals and small businesses. We do not rely on any public funds for any of our activities.

More than half of our members are ratepayers of Puget Power, the largest private utility in the state. I understand that Mr. Ellis, president of Puget, testified before this committee in Washington D.C. If any suggestion was made that the proposed legislation would be beneficial to private utility ratepayers, I think the fact will prove otherwise. My testimony today will focus on the impacts this legislation would have for the ratepayers of private utilities. You will hear from other witnesses who will share the concerns of public utility ratepayers.

S-1701 would allow BPA to contract with a new, undefined, "entity" to provide financing for continued work on WPPSS #3. The real issue which the Committee should be looking at is how this legislation would affect ratepayers, and how it would affect the U.S. Treasury. We believe you will find that this proposal would be contrary to the interests of both ratepayers and federal taxpayers.

More than any other factor, we stress that it is inappropriate to commit another $3-4 billion to a nuclear plant at a time when BPA is cutting regional conservation programs, and refusing to implement the conservation measures included in the Regional Power Plan. The Regional Act established conservation as the region's first priority. This proposed legislation would undercut that commitment.

Post Office Box 1423 Olympia, WA 98507

## WHAT IS THE COST OF COMPLETION FOR WPPSS #3?

Plant #3 is further from completion now than it was when it was started. Given WPPSS' most recent budget estimates, the direct construction cost to complete WPPSS #3 (assuming a July, 1984 restart) is $2.025 billion. When the interest during construction is included on the remaining construction costs, the total avoidable cost at completion is about $3.2 billion, assuming a 1988 on-line date. That is the amount we can save by not building WPPSS #3.

The press has used a figure of "$1 billion" in describing the cost to complete #3. That is an obsolete estimate, which only represented the amount in WPPSS bonds needed to pay for direct construction costs. The interest during construction, a portion of which is paid by BPA out of rates, was totally ignored. The figure above, $3.2 billion, is a conservative estimate based upon WPPSS' most recent cost estimates to complete.

The original budget for WPPSS #3 was $789 million. While WPPSS may describe plant #3 as being "75% complete," the fact is that they are $2.4 billion further from completion than they were when the project was begun.

Pacific Power and Light, owner of 10% of WPPSS #3, estimated the cost of power from the project at 19 cents/kwh (1990$) in a 1981 submission to the Oregon Public Utility Commissioner. The Washington State Senate Energy and Utilities Committee adjusted this estimate to reflect the increase in the WPPSS #3 budget which was adopted in early 1982, and to reflect a 60% capacity factor; the estimate at that time was 24 cents/kwh. I can assure the Committee that these costs have not declined since that time. Is it a sensible policy to facilitate continued expenditures on a project with such astronomical costs, when the need for the output is very much in question?

Puget Power is responsible for providing 5% of the remaining direct construction dollars, or about $100 million. In addition, they will have to come up with their share of interest during construction on this $100 million. At their current borrowing rates, this will add another $70 million between now and the anticipated date of operation. Puget already has about $120 million invested in plant #3; the interest on this investment to the date of operation will total an additional $120 million at current borrowing rates. Puget ratepayers are currently paying the interest during construction on about half of this amount, through the inclusion of Construction Work in Progress in rate base. The other private utilities are not charging CWIP.

Once complete, Puget Power would have to provide a share of the project operating costs as well. They would then be entitled to receive a share of the output. Table 1 shows an estimate of the costs of completion of WPPSS #3, ignoring the costs which have already been committed. This accurately reflects the incremental cost of completion to Puget Power ratepayers, even assuming that the Washington Utilities and Transportation Commission were to allow Puget to recover the investment to date if the project were terminated. Operation and maintenance, fuel and other operating costs are taken from the most recent WPPSS Official Statement for project #3 (5/82), and from WPPSS Action Memorandum #24 (10/82).

### TABLE 1

### INCREMENTAL COST TO COMPLETE AND OPERATE WPPSS #3
ALL SUNK COSTS EXCLUDED
PUGET POWER 5% SHARE
1990 OPERATING YEAR
Thousands of dollars

| | | |
|---|---|---|
| Capital cost: | $34,000 | (20% annual charge rate) |
| Fuel: | 5,881 | |
| O&M | 5,826 | |
| Capital Replacements: | 1,388 | |
| Decommissioning | 558 | |
| Total: | 47,653 | |
| Output: (60% plant factor) | 326 million kwh | |
| Cost/kwh: | 14.6 cents/kwh | |

If we do not assume that the utility regulators will allow the private utilities to charge ratepayers for the investment to date if the project is terminated, then the cost to ratepayers must include the total capital cost of the project. Table 2 shows the costs ratepayers will face for the power from WPPSS #3, if it is completed, including the costs already committed:

### TABLE 2

### TOTAL COST TO COMPLETE AND OPERATE WPPSS #3
PUGET POWER 5% SHARE
1990 OPERATING YEAR
Thousands of dollars

| | | |
|---|---|---|
| Capital cost: | $82,000 | (20% annual charge rate) |
| Fuel: | 5,881 | |
| O&M | 5,826 | |
| Capital Replacements: | 1,388 | |
| Decommissioning | 558 | |
| Total: | 95,653 | |
| Output: (60% plant factor) | 326 million kwh | |
| Cost/kwh: | 29.3 cents/kwh | |

## WHAT WILL THE PRIVATE UTILITIES HAVE TO PAY FOR REPLACEMENT POWER FOR #3?

Assuming that Puget actually needs the equivalent to the power anticipated from plant #3, the most likely source of that power, if #3 is not completed, would be from the Bonneville Power Administration, under Puget's "net requirements" contract executed last year. Given BPA's anticipated surplus situation, the ability to sell power to the private utilities at the "new resources" rate would have two benefits to Bonneville. First, BPA would receive a premium rate for their surplus. Second, BPA's revenue stream would be stronger, enhancing BPA's ability to meet it's repayment obligations to the U.S. Treasury.

BPA has estimated their future rates for both the "priority firm" and the "industrial firm" power pools, but not for their "new resources" pool. Priority firm rates are anticipated to rise at approximately the same rate as inflation (assume by BPA at 6%), while industrial rates are projected to rise at less than the rate of inflation. Assuming that the "new resources" rate rises at 1% above inflation, in 1990 this rate will be approximately 43 mills/kwh.

It is thus possible to calculate both the anticipated revenue to BPA from sales to private utilities, to replace WPPSS #3 output, and to calculate the savings to private utility ratepayers, compared with completion and operation of WPPSS #3. Table 3 details the revenues to the U.S. Treasury, and the savings to private utility ratepayers, from substitution of surplus BPA power for the energy the private utilities expect to receive from WPPSS #3.

TABLE 3

U.S. TREASURY AND PRIVATE RATEPAYER BENEFIT FROM SUBSTITUTION
OF BPA 7(F) NEW RESOURCES POWER FROM WPPSS #3 OUTPUT
INCREMENTAL COSTS TO COMPLETE ONLY
ALL SUNK COSTS EXCLUDED

| | |
|---|---|
| PRIVATE UTILITY SHARE OF #3 POWER: | 1.96 BILLION KWH |
| ESTIMATED NEW RESOURCES RATE: | 43 MILLS/KWH |
| TOTAL BPA REVENUES: | $84 MILLION/YEAR |
| COST OF WPPSS #3 OUTPUT @ 14.6 CENTS/KWH: | $286 MILLION/YEAR |
| SAVINGS TO RATEPAYERS: | $202 MILLION/YEAR |

DISTRIBUTION OF SAVINGS BY UTILITY

| | | | |
|---|---|---|---|
| PUGET; WWP | $34 MILLION | PACIFIC; PORTLAND GE | $67 MILLION |

APPROXIMATE SAVINGS PER CUSTOMER PER YEAR

| | | | |
|---|---|---|---|
| PUGET POWER | $68 | PORTLAND GE | $134 |
| WASHINGTON WATER POWER | $149 | PACIFIC POWER | $102 |

If we assume that the private utilities would not be allowed to charge ratepayers for the funds invested to date, if the plant is terminated, the savings to ratepayers are much greater. Oregon law presently precludes in inclusion of costs associated with non-operating plants in rates. Table 4 shows the savings which would accrue to ratepayers under this scenario, from substitution of BPA "new resources" power:

### TABLE 4

### SAVINGS TO RATEPAYERS FROM SUBSTITUTION OF BPA NEW RESOURCES POWER FOR WPPSS #3 POWER WITH RECOVERY OF SUNK COSTS DENIED

| | |
|---|---|
| COST OF BPA 7(F) POWER: (1.956 BILLION KWH) | $ 84 MILLION/YEAR |
| COST OF WPPSS #3 OUTPUT @ 29.3 CENTS/KWH: | $574 MILLION/YEAR |
| SAVINGS TO RATEPAYERS: | $490 MILLION/YEAR |

DISTRIBUTION OF SAVINGS BY UTILITY

| | | | |
|---|---|---|---|
| PUGET; WWP | $82 MILLION | PACIFIC; PORTLAND GE | $163 MILLION |

APPROXIMATE SAVINGS PER CUSTOMER PER YEAR

| | | | |
|---|---|---|---|
| PUGET POWER | $160 | PORTLAND GE | $326 |
| WASHINGTON WATER POWER | $360 | PACIFIC POWER | $248 |

### DOES THE REGION NEED THE POWER FROM WPPSS #3?

The region's need for power has been reassessed downward annually since 1970. BPA recently released their 1983 forecast; it is down about 900 MW, or more than the output of WPPSS #3, from the 1982 forecast. Actual loads continue to underrun forecasts. Since the new BPA forecast was released, one month of data has been published, for the month of July, 1983. In that month, power usage in the Northwest Coordinated System was 7.3% below forecast.

Total energy generation for load in the region is reported monthly by BPA. At the end of each operating year (July-June), a summary is published. Table 5 shows the annual power usage in the Northwest Coordinated System since 1977:

### TABLE 5

ACTUAL POWER USAGE -- NORTHWEST COORDINATED SYSTEM -- OPERATING YEARS 1977-83

| OPERATING YEAR | POWER USAGE AVERAGE MW | CHANGE FROM PRIOR YEAR |
|---|---|---|
| 1977 | 14,158 | |
| 1978 | 14,379 | +221 |
| 1979 | 15,749 | +1370 |
| 1980 | 15,718 | -31 |
| 1981 | 16,089 | +371 |
| 1982 | 15,624 | -465 |
| 1983 | 14,728 | -896 |

It is evident that the load growth once predicted for this region is not actually occurring. The question remains as to what will occur in the future. Every responsible analysis shows that the region has a surplus for at 10 years, even without completion of WPPSS #3, even under below-average hydro conditions. It would appear to be logical to defer construction of plant #3 until the need for the output of #3 is clear. Deferral preserves the option of completing the plant, if it is needed, but completion eliminates the option of terminating the plant, if termination is the least cost option for the region.

## CAN'T THE POWER FROM WPPSS #3 BE SOLD TO CALIFORNIA?

The power from WPPSS #3 can be sold outside the region if there is sufficient intertie capability to move the power south. However, it is quite clear that this power cannot be sold at anything resembling the cost of completion and operation of WPPSS #3. As a result, if the plant is finished, and the power exported, regional ratepayers will face rate increases to subsidize the export.

Typically, rates to California have been lower than rates for sale of power within the region, since the California utilities are in a position to bargain with surplus regions, including Arizona, New Mexico, Nevada, and British Columbia for bargain-basement rates.

Consequently, even if a sale of surplus power can be arranged outside of the region, it would be expected to be at an average rate lower than the estimated "new resources" rate within the Nortwest. As a result, a surplus power sale would be of little benefit in offsetting the massive cost of completion of WPPSS #3.

The regional intertie is very limited in capacity. While upgrades are possible, and even perhaps advisable, the regional hydro surplus in most years means that thermal plants must be shut down much of the time. Table 3 of Mr. Lazar's response to Senator Metzenbaum's questions (attached) details the proportion of the time that the hydro surplus exceeds the regional intertie capability. Under load/resource balance, the intertie is flooded and thermal plants must be shut down about 25% of the time; given a 1000 MW firm surplus, the proportion increases to 37% of the time.

As a result, if WPPSS #3 were completed, the region would be in the position of selling the power part of the time at a fraction of the cost of production, and being forced to curtail operation altogether as much as one-third of the time when operation would be desirable. This is hardly a money-making proposition.

## WON'T DELAYING THE PLANT JUST INCREASE THE ULTIMATE COSTS OF COMPLETION?

There is no question that delay will add to the construction costs of plant #3. WPPSS estimates a $35 million annual cost of "preserving" the plant in a state of readiness for ultimate completion. In addition, there are costs associated with demobilization and remobilization of the work force, but these have largely been incurred already.

The costs of delay, however, are trivial compared with the cost of early completion, and sale of the power outside the region at a loss. Table 6 details the annual revenue from sales of power at 40 mills/kwh and at 60 mills/kwh (an optimistic surplus sales price), and costs of the power at 10 cents, and 16 cents/kwh, two representative estimates of the cost of completion and operation of WPPSS #3 in the 1988-92 period. In addition, the table shows the cumulative loss over three years of operation, to compare the loss the region would incur due to completing #3 on schedule, with the costs for the three year delay recommended by Bonneville. As is evident, the loss to Northwest ratepayers from completion ahead of need, and sale of the power outside the region, totally dwarfs the costs of delay noted by WPPSS.

TABLE 6
LOSS TO REGIONAL RATEPAYERS FROM EARLY COMPLETION OF WPPSS #3
AND SALE OF SURPLUS OUTPUT TO THE SOUTHWEST

ANNUAL OUTPUT: 6.5 BILLION KWH/YEAR (60% CAPACITY FACTOR)

ANNUAL LOSS TO NORTHWEST RATEPAYERS

SURPLUS SALES PRICE/KWH

| COST OF POWER | 40 MILLS | 60 MILLS |
|---|---|---|
| 10 CENTS | $390 MILLION | $260 MILLION |
| 3 YEARS LOSS: | $1.17 BILLION | $780 MILLION |
| 16 CENTS | $780 MILLION | $650 MILLION |
| 3 YEARS LOSS: | $2.34 BILLION | $1.95 BILLION |

In addition, the cost of financing for WPPSS is expected to decline over the next few years, assuming that BPA's legal authority to back the net-billed bonds is upheld by the Courts. Each of the three studies of WPPSS default indicated that interest penalties to Northwest borrowing would decline with time; while they will not be eliminated by a three year delay, such a delay would significantly reduce financing costs; this savings alone would likely offset all of the costs of delaying the project.

Finally, a delay would result in a project which was more useful to the Northwest region. By delaying construction, a larger proportion of the useful output of the plant, during it's lifetime, would be needed here in the region. As a result, the region would get more years worth of useful energy from our investment. The analysis in Table 6 measures the loss to the region only against the incremental cost to complete and operate the plant; no cost is included for the roughly $2.5 billion already invested in WPPSS #3 by regional ratepayers.

## WILL COMPLETION OF #3 ENHANCE BPA'S ABILITY TO REPAY THEIR OBLIGATIONS TO THE UNITED STATES TREASURY?

NO. Completion of WPPSS #3 will add at least twice as much to BPA costs as to BPA revenues. The only possible result would be greater instability in BPA net revenues, a greater likelihood of BPA deferrals, and an increased federal deficit. This issue is dealt with in detail in the Jim Lazar's response to Senator Metzenbaum's questions.

Table 6 shows that the difference between the added revenue, from surplus power sales, and the added cost from completion and operation of WPPSS #3 could equal more than $2 billion over the three years for which deferral has been recommended. An effort by Bonneville to recover their 70% share of this loss from regional ratepayers would result in sharply increased rates, and price response to those rates could well impair BPA's ability to make amortization payments as scheduled to the Treasury.

## UNEMPLOYMENT IN THE REGION WILL INCREASE IF CONSTRUCTION IS RESUMED

Completion of WPPSS #3 ahead of need will result in higher electric rates than if the 3-year deferral is continued. The higher rates will reduce regional disposable income, which is spent on job-producing consumption. Virtually all of the WPPSS-caused rate increases will leave the region, for bond debt service, nuclear equipment, nuclear fuel, and insurance. The loss to the local economy translates into a loss of local jobs.

For each million dollars of lost disposable income to the region, approximately 33 direct jobs, and 67 indirect jobs are lost, according to generally accepted relationships between income and employment, and standard multiplier effects. Given the estimated loss to the region in Table 6, of $260-$780 million/year from early completion, the region could lose 26,000 to 78,000 jobs for three years if work is resumed. These would never be recovered, but deferral, with later completion of the project, would result in construction employment exactly equal to what would occur if construction resumed immediately.

## WHY HAVEN'T THE REGION'S PRIVATE UTILITIES PROVIDED ANY TECHNICAL ANALYSIS TO SUPPORT THEIR ARGUMENT FOR EARLY COMPLETION?

Bonneville, WPPSS, ratepayer organizations, public utilities, the City of Seattle, and the Regional Council are all providing technical studies to support the decisionmaking process over WPPSS #3. All of these are being made available for public review and analysis. The private utilities have been notably silent -- we must presume that they realize that "the numbers just don't support their case."

Their refusal to come forward with useful analysis should be dealt with very simply: what they say should be ignored until they provide analysis to support it, and until there has been sufficient time to review that analysis.

## CONCLUSION

Early completion of WPPSS #3, as facilitated by S-1701, is clearly not in the interests of regional ratepayers, public or private. The deferral which Bonneville has recommended should proceed. With the deferral, we can be certain that Bonneville will have lower rates, the region will have higher disposable income, and our ability to meet our debt obligation to the Treasury will be enhanced.

FERN, on behalf of our members and supporters, urges you to reject this legislation at this time, and allow the Regional Council and the region's utilities sufficient time to analyze where we are, and how best to get where we want to go.

Thank you for your interest, and your consideration.

JIM LAZAR CONSULTING ECONOMIST

August 26, 1983

Senator Howard M. Metzenbaum
United States Senator
SR-363 Russell Senate Office Bldg.
Washington, DC 20510

Dear Senator Metzenbaum:

I appreciate the opportunity to respond to your letter of August 15 relating to the pending legislation (S-1701) proposed by the gentleman from Idaho. By way of introduction, I am a consultant on electric power issues, primarily resource planning and pricing. I have worked in the energy field in the Northwest since 1973, and my clients have included public and private utilities, local, state, and federal agencies, public interest groups, industrial trade associations, and law firms representing consumers, utilities, and WPPSS bondholders.

Your questions deal with several aspects of the WPPSS issue, and demonstrate an understanding of the breadth of the problem; none of us profess to know the "solution" to the problem, but I will do my best to add my knowledge and experience to the information you already have in hand.

1) WHAT IS THE BILL'S IMPACT ON EXISTING WPPSS 1-2-3 BONDHOLDERS? DOES THE MEASURE IN ANY WAY IMPROVE THEIR CHANCES FOR BEING REPAID? COULD IT HURT THEM?

The bill would appear to affect existing WPPSS 1/2/3 bondholders in two ways. First, it would create another group of security holders, whose lien may be senior to those of the existing bondholders. Second, it would add to Bonneville's revenue requirements in an amount greater than it could add to Bonneville's revenues, thereby diminishing Bonneville's ability to make payments in the amounts and on the schedule provided in the existing bond covenants. As there is supposedly someone looking out for the interests of these parties, I believe that this issue should also be addressed to the bond fund trustees for plants 1, 2, and 3 (Morgan Guaranty Trust, Continental Illinois Trust, and Seattle First National Bank.)

It is not clear whether the "entity" anticipated by S-1701 would have access to Bonneville revenues prior to the existing bondholders, on a parity with existing bondholders, or subsequent to the existing bondholders. If the "entity" has a prior lien on Bonneville revenues, and Bonneville is unable to generate sufficient funds to pay all creditors, it would appear that the "entity" would receive 100% of what it is due, and existing bondholders would receive something less than this. If, for example, Bonneville was $200 million short of meeting all of their requirements, the annual obligations to the "entity" were $150 million, and those to the existing bondholders were $700 million, it would appear that the "entity" would receive a full $150 million, and existing bondholders would receive $550 million, or 79% of what they are due. If the liens are equal, each creditor would receive 82% of what they are due. If the "entity" were not created, all $650 million in BPA revenue would be available for existing bondholders, giving them 93% of what they are due. Obviously, the existing bondholders would be made worse off if the "entity" had a senior lien.

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If the "entity" did not have a senior lien on Bonneville revenues, it is difficult to see what the "entity" would offer, in terms of ability to assist with financing of WPPSS 1/2/3, which is not already present with WPPSS. If the entity's lien is not senior to WPPSS' lien, then any liability associated with BPA's net-billing obligations for WPPSS 4/5 would be paid equally with payments to the "entity." Therefore, the "entity" could not logically offer potential investors any greater assurance that they would be paid than WPPSS can. Other things equal, one would expect the "entity" to have capital costs equal to WPPSS' if the liens on BPA revenues are equal. Other things are NOT equal, however, and I believe a careful examination of the situation shows that the "entity" would have a HIGHER cost of capital than WPPSS.

Additional financing of WNP-3, if facilitated by S-1701, would add significantly to BPA's revenue requirements. This is done in two ways. First, direct costs would be higher, as BPA would be servicing $1 to $4 billion in additional debt. Second, and perhaps equally important, completion of WPPSS #3 would reduce BPA's market for power, while increasing their supply. Economics tells us that an increased supply and decreased demand leads to lower prices; as a result, completion of WPPSS #3 would diminish BPA's ability to obtain revenues from surplus power sales. This suggests, as detailed below in the answers to question 5 and 7, that BPA's ability to pay existing bondholders would be impaired by passage of the legislation.

Completion of WPPSS #3 would provide approximately 6-7 billion kwh per year to the region. 30% of this would accrue to the Investor-owned utilities, and 70% to Bonneville. Bonneville has indicated that in the next eight years, this energy would be surplus to REGIONAL needs. We have sufficient energy to meet regional needs without accelerated construction of WPPSS #3 facilitated by S-1701.

Passage of S-1701, coupled with completion of WPPSS #3, would increase the regional power supply at a time when neither public nor private utilities need the energy. However, the investor-owned utilities would be in a position to reduce their purchases of power from Bonneville if the plant came on line, therefore keeping their own systems in load-resource balance. Each of the investor-owned utilities purchases power from Bonneville to supplement their own resources. The full burden of this surplus would thus be shifted to BPA. The cost of completion would add to BPA's revenue requirement at the same time that the power provided to the private utilities would reduce BPA's revenue base. More supply, higher prices, and a smaller market. Not exactly the situation a prudent businessperson would want to encourage.

BPA has predicted their rates for various classes of service, and predicted the cost of power from WPPSS #3, assuming the plant could be completed without any cost escalation from the adopted 1983 budget (assuming the current slowdown is cost-free.) While nearly all independent analysts agree that this budget is out of date, and higher costs will occur, it is evident that the revenue BPA anticipates from firm power sales is insufficient to pay the incremental costs of completion and operation of WPPSS #3. Table 1 shows BPA's estimates:

TABLE 1
BPA ESTIMATES OF RATES AND WPPSS #3 INCREMENTAL COSTS
NOMINAL DOLLARS FOR YEAR SHOWN

| YEAR | PRIORITY FIRM RATE MILLS/KWH | INDUSTRIAL RATE MILLS/KWH | WPPSS #3 COST MILLS/KWH | WPPSS #3 COST AS % OF RATE FOR POWER SOLD |
|---|---|---|---|---|
| 1985 | 22.9 | 26.0 | 52.6 (1987) | 230% |
| 1990 | 31.0 | 28.5 | 59.2 | 191% |
| 1995 | 40.6 | 39.4 | 72.0 | 177% |
| 2000 | 59.7 | 56.8 | 88.0 | 147% |

Source: RATES from "Analysis of Resource Alternatives Related to WNP-3, May 23, 1983 Page 35

COST from "First Year and Levelized Cost and Real Levelized Cost to Complete and Operate WNP-3" June 10, 1983 House Interior Subcommittee hearing record, Page 3

Inflation assumed at 6%/year per "First Year and Levelized Cost" document.

Quite clearly, by selling power at less than the incremental cost of completion and operation of WPPSS #3, BPA will have to raise rates for other power in order to generate the needed revenue. WPPSS #3 cannot generate sufficient revenue from power sales to compensate BPA for the incremental cost of completion and operation -- much less provide any return to help repay the bonds already issued for the plant. For at least half of the plant's life, it is evident that we would lose money by finishing #3 and selling the power at the BPA priority firm rate. Given BPA's expectation that the industrial load will decrease over the same period, that market offers little hope.

In addition, since the "entity" would be unable to issue tax-exempt securities, the cost to the region and to Bonneville (not to be confused with the overall cost to the nation) would be greater than for WPPSS, other things equal.

While the savings associated with tax-exempt bond issues are derived from reduced federal income tax payments, and therefore do not constitute a "cost reduction" in any macroeconomic sense, the higher interest rates for financing which the taxable "entity" would incur would add to Bonneville's revenue requirement in an amount greater than [WPPSS] tax-exempt borrowing would, other things equal. By adding a greater amount to Bonneville's revenue requirements than would direct WPPSS financing, BPA's ability to meet it's obligations, when and as due, would be more severely affected by debt issuance by the "entity" than if WPPSS itself were to issue the securities.

The relevance of this is dependent upon the assumption that BPA runs some risk of not being able to pay their obligations when and as due; this is addressed below in response to questions 5 and 7.

2) WHAT IS THE BILL'S IMPACT ON EXISTING WPPSS 4/5 BONDHOLDERS? DOES THE BILL IMPROVE THEIR PROSPECTS FOR REPAYMENT? DOES IT HURT THEM?

WPPSS 4/5 bondholders only presently anticipated source of repayment are damage awards as a result of litigation presently underway. Passage of the legislation would appear to have no impact on the outcome of this litigation. The only relationship would be if passage of the legislation enhanced or diminished the ability of the defendants to actually pay damages if ordered.

Given the region's lack of market for the power WPPSS #3 would produce at the cost and on the schedule schedule anticipated under passage of S-1701, the higher rates would clearly be required of the preference utilities, compares with the present mothballing of #3. Higher BPA rates would reduce local spending power, damage local economies, reduce BPA sales (reducing prices for surplus power as a result) and drain financial reserves of the preference utilities, if sales did not track projections. Passage of S-1701 would therefore diminish the region's preference utilities ability to pay any damage award which WPPSS 4/5 bondholders might receive. Utilities would have to choose between paying Bonneville [necessary to keep electricity flowing and avoid default to 1/2/3 bondholders] or pay damage awards, if the combined costs exceed their revenue generating capability. Consumer resistance to paying higher rates is already clearly evident.

Many of the named defendants in the securities fraud suits are not preference utilities of Bonneville. S-1701 would affect these parties differently, if at all. By and large, we can assume that the non-utility parties ability to pay damage awards will not be measurably affected by S-1701, except that their own utility bills will increase, diminishing their disposable personal income. This impact is utterly insignificant compared with the $7+ billion in damages being sought in the securities fraud litigation.

3) IT HAS BEEN SUGGESTED THAT EXISTING WPPSS 1-2-3 BONDHOLDERS MAY FIND THEMSELVES PLACED IN AN INFERIOR POSITION TO THE NEW BONDHOLDERS IF BPA REVENUES TURN OUT TO BE INADEQUATE TO REPAY ALL OF ITS DEBT SERVICE OBLIGATIONS. WHAT IS YOUR ANALYSIS OF THE POTENTIAL IMPACT OF THIS LEGISLATION ON THE STATUS OF EXISTING BONDHOLDERS? IS THE CONCERN OUTLINED ABOVE A VALID ONE?

This issue has been discussed in my response to question 1, above, and in my response to questions 5 and [illegible] below; I believe the concern is a valid one, and is probably best addressed to the bond fund trustees for projects 1-2-3.

If the legislation allows the "entity" to have a superior lien on BPA revenues to WPPSS, existing bondholders will be impaired. If this is not provided, there is no reason to believe that the "entity" will be able to finance on terms equal to those of WPPSS, due to the interest rate advantages provided by WPPSS' tax-exempt status.

4) DO YOU BELIEVE THE LEGISLATION IS AN APPROPRIATE AND SOUND CONGRESSIONAL RESPONSE TO THE WPPSS PROBLEM? IF NOT, DO YOU HAVE ANY SUGGESTIONS AS TO HOW CONGRESS SHOULD ADDRESS THE MATTER?

The legislation is a piecemeal approach to the WPPSS problem. It does nothing to assure that long-term financing will be available for the net-billed projects, instead providing only a mechanism for short-term financing. This could potentially leave BPA and the region with a massive amount of debt to roll over in five years, and possible no ability to do so. This would result in massive deferrals to the U.S. Treasury, and probable default on the WPPSS 1-2-3 obligations. The present problem is insignificant compared with a possible scenario five years hence, with $1 billion in short term debt coming due at once, and circumstances [not yet evident] which would preclude refinancing.

One effort to keep WPPSS 4/5 alive with short term financing came to a swift end. WPPSS' financial advisors in 1980-81 (Blythe Eastman) proposed that WPPSS issue up to $1 billion in short term (3 year) notes to continue construction of plants 4/5, as there was no remaining market for long term bonds. That change in the financing arrangement required universal approval of the 88 participant utilities. That approval was not forthcoming, as a number of the participants were concerned about the ability to refinance at the maturity of the three year notes. That situation is essentially identical to the present, except that S-1701 is an effort to circumvent the contract rights of the 116 participants in the net-billed projects to approve or reject changes in proposed financing.

I believe that the participants have learned quite a bit in recent years, and that their input should be sought, rather than shunned.

A sound Congressional response to the WPPSS situation, in my opinion, would include the following elements:

1) Minimize the cost of power to the Northwest region, by strengthening the authority of the regional power plan, and implementing certain programs at the national level;

2) Protect the existing bondholders by directing Bonneville not to increase its obligations for the net-billed projects unless all less-expensive conservation and generation options have been exhausted, and unless the revenue to be obtained from the power produced by #3 will equal or exceed the incremental cost of the power, so that rate increases will not be needed to provide the funds for debt service;

3) Protect the public utility entities in the region by avoiding any legislation which would abridge their authority in controlling WPPSS, including the authority to approve or reject financing. This will help insure that revenue requirements do not exceed revenue generating capability. Alternatively, if the public utilities are to be bypassed by the mechanisms of S-1701, the Congress should indemnify the public utilities, their ratepayers, and their employees for any actions taken by any party on the WPPSS projects.

Congress could assist the region in resolving the present problems in several specific ways:

1) Amend the regional power act (16 USC 839a(3(10)b)) to provide that the net-billed thermal plants are not a part of the Federal Base System; only those costs incurred prior to the present should be FBS obligations. The FBS could be defined to include an amount of energy equal to the anticipated output of the net-billed projects, but the regional council and Bonneville should be free to provide that energy with the most cost-effective resources.

This would essential "ungrandfather" WPPSS #3, so that completion costs for this project would be compared and considered along with competing resources, rather than being an "assumed" part of the regional power system.

Bonneville could be directed to defer any additional commitments to the net-billed projects until all lower cost resources have been implemented. This would insure that existing bondholders are not adversely impacted by continuation of WPPSS #3.

2) Amend the regional power act (4(f)2) to eliminate the discretion of the Council and Administrator in imposing surcharges on areas not implementing the conservation standards of the plan; this will help insure that planned priority resources are actually implemented.

3) Assist in the development of additional transmission intertie capability to the Southwest, in order to enhance oppostunities for extraregional sale of regional surplus power and reduce Southwest dependence upon imported fossil fuels. Such legislation would impose conditions on BPA and WAPA.

4) Implement the Building Energy Performance Standards developed by the U.S. Department of Energy in 1980. The building standards in BEPS would save the Pacific Northwest the equivalent of 1-2 nuclear plants of electricity by the year 2000, and save the nation the equivalent of 20-40 nuclear plants in the same time period, at great economic savings to consumers nationwide.

5) Amend the Securities Act to require that all bonds sold by municipal entities be approved in amount and interest rate by the voting constituency responsible for repayment. This will help avoid future defaults on technical grounds, as has occurred on WPPSS 4/5, and would prevent a WPPSS-like situation from developing elsewhere in the United States in the future.

I believe that the above suggestions would assist the region in meeting our energy needs in a cost-effective manner, while improving the region's ability to repay the costs of the net-billed projects, thereby protecting existing bondholders.

5) SOME HAVE ARGUED THAT COMPLETION OF WNP-3 WOULD ENHANCE BPA'S ABILITY TO MEET ITS DEBT SERVICE OBLIGATIONS TO WPPSS 1-2-3 BONDHOLDERS BY ADDING TO ITS REVENUE STREAM. DO YOU SHARE THIS VIEW? IF NOT, WHY NOT?

The statement that revenues would be increased by completion of WPPSS #3 may be factually incorrect; at best it is irrelevant and misleading. Completion of WPPSS #3 would increase BPA's costs by approximately twice as much as it would increase BPA's revenues, even assuming the power could be sold at firm power rates. Given BPA's projected energy surplus, it is unlikely that the power could be sold at firm rates, and therefore the gap between increased costs and added revenues would be even greater under presently projected circumstances.

Table 1, above, shows BPA's projections of firm power rates, and of the incremental cost of completing and operating WPPSS #3. This shows clearly that WPPSS #3 will not generate nearly as much in revenues as in costs.

In addition to the simple comparison above, completion of WPPSS #3 would affect BPA revenues in two other ways: first, it would increase the firm surplus at a time when BPA is experiencing difficulty marketing the existing surplus. An increased surplus means lower rates for surplus power. It is entirely possible that the lower rates for surplus will more than offset the additional surplus, leading to a decrease in total revenue coupled with an increase in the total BPA revenue requirement. The result, obviously, would be increased deferrals to the U.S. Treasury, and possible default on WPPSS 1/2/3 bonds.

Table 2, below, shows an estimate of the relationship between the regional surplus, and the rate we can receive for that surplus. This indicates that a surplus in excess of 700 MW has a value of only about 18 mills/kwh, or less than one-half of the estimated cost of completing and operating WPPSS #3. A surplus in excess of 1500 MW was not even calculated by BPA or WPPSS' consultant, Applied Economics Associates.

TABLE 3
SURPLUS ENERGY VALUATION

| AMOUNT OF SURPLUS (MW) | VALUE OF MARGINAL KWH (1982 MILLS/KWH) |
|---|---|
| 0-100 | 28 |
| 100-200 | 24 |
| 200-300 | 22 |
| 300-400 | 20 |
| 400-500 | 19 |
| 500-1500 | 18 |
| 1500+ | not estimated |

Cost of completion and operation of WPPSS #3: 30+ mills/kwh (1982 $)

Source: BPA, 1982; Applied Economic Associates, 1983

Therefore, additional surplus energy , generated by completing WPPSS #3, will not assist BPA in generating additional NET REVENUES. The fact that gross revenues would be increased is irrelevant and misleading. Only the difference between increased costs, and increased revenues, is a useful measure.

6) DO YOU BELIEVE THERE IS A MARKET FOR SURPLUS POWER IN THE PACIFIC NORTHWEST? IF THERE A MARKET FOR THE SURPLUS THAT WOULD BE GENERATED BY WNP-3? IF SO, WHERE?

The only potential market for surplus power in the Pacific Northwest would be a market created by establishing lower rates than presently exist. I believe that a significant amount of fuel-switching could be encouraged, by providing firm or nonfirm energy rates significantly below the cost of alternative direct fuels, primarily oil and natural gas. This is not an economic market for WPPSS #3 power.

Completion and operation of WPPSS #3 would be much more expensive than currently projected firm rates, as shown in Table 1. It would not be in the region's economic interest to complete a project at costs above firm rates, and then market the surplus at prices below firm rates. [This is akin to selling a product below cost, and boasting that you will profit by 'making it up on volume.']

I also do not believe that a market exists outside the region at a price which will cover the costs of completing and operating WPPSS #3. Sales prices to California have typically been far below the cost of completion and operation of WPPSS #3. With San Onofre 2&3, and Diablo Canyon 2&3 on line, off-peak demand for electricity in California will likely be lower than the capability of their own low-operating-cost resources, eliminating off-peak sales from the Northwest entirely. Our ability to ship energy on-peak is limited by the intertie capability; the total on-peak market is smaller than the presently available surplus in the region; on numerous occasions in the past year, the existing intertie has been partially vacant, for lack of market in the Southwest at the BPA "spill" rate of 9 mills/kwh.

The California intertie is limited in capacity. Given the substantial amount of hydroelectric energy in the region, and the traditional planning of regional utilities to provide sufficient energy from thermal sources to supplement dry-year hydro conditions and meet the regional need, we have large amounts of surplus energy in most years even when we are in so-called "load-resource balance." Given the regional tradition of planning for the driest of all dry years, we have hydro surplusses during some months in approximately 35 years out of 40. The California utilities have logically been unwilling to commit to high-cost firm power contracts, recognizing that they would be foreclosing their ability to receive lower cost surplus in wet years if they were to tie up the intertie capacity.

Table 3 shows the an analysis of expected hydro surplusses, above dry-year levels, for a 400 period (40 year) analysis conducted by the Army Corps of Engineers; the months of April, May, and June have been excluded, as thermal plants are expected to be shut down for annual maintenance during these months of Spring runoff, and the large hydro surplus which results.

TABLE 3
HYDRO SURPLUS DURATION TABLE
40 YEAR HYDRO STUDY; APRIL-JUNE ELIMINATED
SOURCE: 1983 PNUCC FORECAST TABLE IV-15

| SURPLUS | NUMBER OF PERIODS | |
|---|---|---|
| 0 | 140 | |
| 0-1000 | 40 | |
| 1000-2000 | 30 | |
| 2000-3000 | 31 | |
| 3000-4000 | 23 | |
| 4000-4500 | 19 | |
| | | Limit of Intertie Capacity |
| 4500-5000 | 10 | |
| 5000-6000 | 25 | |
| 6000-7000 | 24 | |
| 7000-8000 | 22 | |
| 8000-9000 | 14 | |
| 9000-10000 | 13 | |
| 10000+ | 9 | |

Assuming a regional firm surplus of 1000 MW, as BPA is predicting with WPPSS #3 on line, there would not even be intertie capacity available for power from WPPSS #3 during approximately 35% of the months the project would be expected to be operated. In the remaining periods, the price to be expected from the surplus would be far lower than the cost of production. Only in the driest months would a surplus command a premium price, and even this price is expected to be lower than the cost of completion and operation of the project. While the price might exceed the variable running costs of the project once built, the decision now before the region is whether to proceed or delay construction. If delay is chosen, the incremental capital costs, together with the operating costs, would be saved.

Other entities are endeavoring to sell power to the same region BPA is hoping to sell the output of WPPSS #3 -- California. These efforts have not been successful, and power output is being curtailed throughout the West for lack of market.

At the present time, the Trojan nuclear plant, Centralia coal plant, Boardman coal plant, and other power plants in the Northwest are shut down or running at part load for "economy" reasons. This means that no market is available at a price which covers the incremental running costs of the resources.

Arizona Public Service was unsuccessful in selling power to California, and signed a contract with Washington Water Power, in Spokane, to sell power from the Southwest TO the Northwest. Such an arrangement suggests that efforts to sell power to the Southwest will meet with difficulty. Bonneville does not now foresee execution of a long-term surplus sales contract with California in the near future. Completion of WPPSS #3 on the present schedule would compound that problem.

7) DO YOU BELIEVE THAT BPA'S CAPACITY TO RAISE RATES IN THE NEAR FUTURE IS ADEQUATE TO MEET ITS EXISTING DEBT SERVICE OBLIGATIONS, AS WELL AS THE $1 TO $4 BILLION IN POTENTIAL NEW DEBT SERVICE IT WOULD INCUR UNDER THIS BILL?

No.

BPA has shown itself to be unable to generate sufficient funds to meet its obligations in recent years. Deferrals in payments to the U.S. Treasury have increased, and BPA is continually lamenting the fact that most of their payment obligations are fixed.

The San Francisco Branch of the Federal Reserve analyzed BPA's accounting procedures a few years ago, and found that BPA has not been setting rates in accordance with the principles embodied in the Bonneville Project Act and subsequent legislation. They found that BPA has been planning to pay the Treasury only a fraction of what they should. A copy of this article is attached.

As is generally known, BPA has succeeded in paying the Treasury even less than they planned. In the past decade, only $43 million in amortization payments have been made. Any source of increased fixed obligations which does not produce as much in revenue as in cost will exacerbate this situation.

Numerous preference utilities of Bonneville are seeking alternative sources of energy to BPA. This year, the City of Seattle opted to discontinue power purchases from Bonneville, instead relying on nonfirm hydro to meet their loads. Avoiding BPA is becoming quite a regional sport among Northwest utilities. In particular, several Public Utility Districts have hired a consulting team to negotiate with B.C. Hydro (Canada) for the purchase of power at rates lower than Bonneville. This loss of market has not been anticipated by Bonneville in forecasting their power needs or revenue expectations.

Bonneville can meet its present obligations only if it takes steps to limit rate increases, limit total revenue requirements, and limit total regional energy costs. This can best be done by accelerating low-cost conservation programs, and marketing the surplus outside the region at prices exceeding the cost of the conservation. Since conservation costs less than the amount which can be obtained from surplus sales, the net benefit can be applied to reduce intra-regional rates, and therefore reduce the adverse economic impacts which continuing rate increases have had on the Northwest economy. Alternatively, these funds could be used to repay the deferral to the Treasury, or to provide debt service for the net-billed projects. Doing so would require transmission intertie expansion.

Additional fixed costs would greatly exacerbate Bonneville's present precarious situation. In particular, S-1701, by allowing BPA to commit to a short term credit facility, which might be difficult to roll over, could immensely compound BPA's financial difficulties, and lead to greatly increased deferrals to the U.S. Treasury, and possibly default to WPPSS 1/2/3 security holders.

## CONCLUSION

S-1701 would be contrary to the best interests of regional ratepayers, regional public utilities, Bonneville, and the U.S. Treasury. Deferral of WPPSS #3, as recommended by Bonneville in May, is the best course of action for the region, due to the high cost, and questionable need, for this resource.

Congress could assist the region in dealing with the current energy problems by strengthening the conservation provisions in the Northwest Power Act, limiting Bonneville's ability to make additional fixed cost commitments, and by enacting national legislation requiring voter approval of municipal debt issues. These measures would assist in disposing of the present problem, and help prevent any similar problems from developing in the future.

WPPSS #3 should not be abandoned entirely. If the conservation and renewable resource measures in the Regional Plan (particularly those on page 5-10) cannot be developed, or perform inadequately, the region should retain plant #3 as an energy option. The option process is well developed in the Plan (pages 3-1 to 3-4) and should be applied to WPPSS #3. The project should be brought to a preservation mode, as recommended by Bonneville in May, and held there until less costly alternatives have been exhausted. Then, if the plant is both needed and capable of providing revenues exceeding costs, it should be completed.

I hope that the above information has been responsive to your request. I can be reached at the number below, or at 206-786-1822 if you or your staff have any further questions.

Sincerely,

Jim Lazar
Consulting Economist

**Washington
State Senate**

**Energy and Utilities Committee**
415 Public Lands Building • Olympia, Washington 98504 QW-41 • (206) 753-9107

Senator Sue Gould
Chair
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Vice Chair
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Senator J. T. Quigg
Senator Al Williams
Senator Bruce Wilson
Senator Dianne Woody

Ref. E-437

MEMORANDUM

DATE: April 29, 1982

TO: Senate Energy and Utilities Committee Members

FROM: Curtis Eschels, Senior Research Analyst

SUBJECT: Pacific Power and Light's Cost of Power from WNP-3

When WPPSS prepares its construction budgets and calculates the cost of power from its plants, it treats the IOUs' financing costs as if they were WPPSS' -- long-term debt at interest rates WPPSS pays for tax-exempt municipal bonds. In fact the private utilities' financing costs are higher. They also are allowed a rate of return on their investment and pay taxes on a different basis than WPPSS or the public utility participants. Until recently how much higher these IOU costs are was not known.

Late last year Pacific submitted to the Oregon PUC its own calculations of the costs it expects to charge for its 10 percent share of WNP-3. Its calculations are based on WPPSS' 1982 budget, a 70 percent plant factor, 10 percent line losses, and levelized fixed charges beginning with commercial operation in 1986.

Pacific shows an annual cost in 1987 of $130,997,000. That figure, divided by Pacific's share of WNP-3's expected output, yields a delivered cost of 191.4 mills per kilowatt-hour in 1987 (19.14 cents per kilowatt-hour).

COMPARISON TO WPPSS

That delivered cost for Pacific is twice the cost of the output for WPPSS, if one includes BPA's payments as if they were capitalized and includes the same assumed 10 percent line losses. (Source: WPPSS Official Statement of 9/4/81, p. 59, 1982 budget basis.)

However, even including the factors above, the costs are neither current nor directly comparable.

UPDATE AND RECONCILIATION

Two modifications are necessary to compare Pacific's cost of output with WPPSS' costs or other means of producing electricity.

Since Pacific submitted its figures to the Oregon PUC, WPPSS has performed a mid-year budget review which forecasts an additional $884 million capital cost of WNP-3 over the adopted 1982 budget, to $5.4 billion. WPPSS includes all interest costs during the construction period in its capital costs. Because Pacific's treatment of interest costs is unknown, this analysis includes only direct construction costs. Therefore, it may be somewhat understated. I have requested that when Pacific updates the figures above, it share the information with the Committee.

Unlike WPPSS, Pacific used a 70 percent plant factor in its calculations. Particularly in the first year of operation, a lower plant factor would be reasonable. WPPSS uses 60 percent.

Therefore, the most current estimate of Pacific's cost of WNP-3's output in 1987 would be 233.8 mills/kilowatt hour, as shown below.

| | Cost (mills/kwh) |
|---|---|
| Pacific calculation | 191.4 |
| Midyear review1/ | 9.0 |
| Subtotal | 200.4 |
| 60 percent plant factor | 33.4 |
| | 233.8 |

1/ Pacific's share of WPPS'S estimated increase in direct construction costs, at Pacific's levelized fixed charge of 14.93 percent. Nuclear plant depreciation increased pro rata. Production costs, including taxes, are unchanged from Pacific's calculation.

As the highest-cost resource Pacific is constructing, WNP-3 and its costs become significant in decisions that are measured against marginal costs, such as competition among alternatives, BPA's resource acquisitions under the Regional Power Planning Act, and many more. Incidentally these costs, even before the update and modification I performed, are higher than for oil-fired generation as forecast by the California Energy Commission. For Pacific's cost of WNP-3 (191.4 mills/kwh) to be competitive with California oil-fired generation in 1987, oil-fired generation costs must escalate at over 16 percent per year.

CE:d5/4

Attachment [illegible]
Response 7

PACIFIC POWER & LIGHT COMPANY
920 S.W. SIXTH AVENUE · PORTLAND, OREGON 97204 · (503) 243-1122

James F. Pienovi
*Controller*

December 22, 1981

Mr. William Kramer
Assistant Commissioner, Utility Program
Public Utility Commission of Oregon
Labor & Industries Building
Salem, Oregon 97310

Dear Mr. Kramer:

Transmitted herewith is Pacific Power & Light Company's 1982 Electric Utility Construction Budget. The following additional information requested with respect to the Company's Electric Utility Construction Budget is also enclosed:

1. A description of major construction projects as prescribed by the budget reporting requirements including an explanation of contingencies and the need for the nongeneration projects, is enclosed as Attachment A.
2. A summary showing the Company's loads and resources forecast which demonstrates the need for the generation projects, is enclosed as Attachment B.
3. Economic comparisons for each of the Company's projected generation projects, are enclosed as Attachment C.
4. Copies of the Company' budget documents, with respect to non-major transmission, distribution and general plant projects for projects located in Oregon which exceed $100,000 in total cost, are enclosed as Attachment D.
5. For each major project, a reconciliation with the amounts reported for total project estimates in the Company's previously submitted Electric Utility Construction Budget Report, is enclosed as Attachment E.

Please address any questions relating to the budgets and attachments to Mr. J. T. Watson (extension 4591) or the undersigned.

Very truly yours,

JFP:nn

Enclosures

Attachment C
Page 1 of 5

## PROJECT ECONOMIC COMPARISONS

The following are the estimated energy costs in mills/kwh for the projects described in this report.

No costs are shown for the Pebble Springs Project since its location and operating dates are indeterminate at this time.

No costs are shown for WPPSS No. 5 since its status and operating dates are indeterminate at this time.

| Project | Cost Year | Cost M/Kwh |
|---|---|---|
| Colstrip Unit #3 * | 1984 | 90.2 |
| Colstrip Unit #4 | 1985 | 75.3 |
| WPPSS Unit #3 | 1986 | 191.4 |
| Wyodak Unit #2 | 1988 | 130.4 |

Includes all common costs associated with Units No. 3 and No. 4

PACIFIC POW IGHT COMPANY
WPPSS Nuclea lant Unit No. 3
Basis 1982 Capital Budget Estimate[1]
In Service Year, December, 1986
(Thousands of Dollars)

Attachment C
Page 4 of 5

| Projected | | Investment | Percent Levelized Fixed Charge[2] | Total Annual Cost |
|---|---|---|---|---|
| Investment in Nuclear Production Plant | | | | |
| Basic Investment | | $532,619 | 14.93% | $ 79,520 |
| Nuclear Plant Depreciation | | | | 18,642 |
| Production-Costs: | | | | |
| Nuclear Plant Operations & Maintenance | | | | 9,250 |
| Fuel Supply | | | | 7,836 |
| Administrative and General, Insurance, Taxes Other Than Income | | | | 15,749 |
| Total Production Costs | | | | $ 32,835 |
| Total Power Costs | | | | $130,997 |
| Projected Annual Generation | .7604 X $10^9$ Kwh | | | |
| Less 10% Loss = Net Energy Available for Load | .6843 X $10^9$ Kwh | | | |
| Average Energy Cost = | | | | 191.4 Mills/Kwh |

---

[1] Cost and generation based on Pacific Power & Light Company's 10% share of WPPSS Nuclear Plant Unit No. 3 of 124 mw less 10% loss or 112 mw net. Based upon the sponsoring utility budget estimates. Capital dollars are stated in the in-service year dollars and a full year of Production Costs are stated in 1987 dollars. The plant factor utilized was 70%.

[2] Average weighted capital structure and capital cost:

| | | |
|---|---|---|
| Pollution Control Bonds | 5% | @ 12.0 % |
| Long-Term Debt | 49 | @ 15.0 |
| Preferred Stock | 10 | @ 15.5 |
| Common Equity | 36 | @ 16.25 |
| | | 15.35% |
| Levelized Return | | 12.06% |
| Levelized Income Tax (50% Composite Tax Rate) | | 2.87 |
| Total Levelized Fixed Charge | | 14.93% |

## STATEMENT OF ED ZUCKERMAN, EXECUTIVE COMMITTEE MEMBER, PROGRESS UNDER DEMOCRACY

Mr. ZUCKERMAN. Senator McClure, members of the committee, my name is Ed Zuckerman. I am speaking today on behalf of Progress Under Democracy [PUD].

Progress Under Democracy, formed July 1, 1981, is a political action committee dedicated to the preservation and expansion of local public power and democratic control of energy resources, particularly the Federal Columbia River system.

To accomplish this purpose, PUD helps locate and support candidates for public utility district commission seats who will support the interests of the ratepayer/owners above all other interests. Of the 24 PUD commission seats up in 1982 in Washington State, Progress Under Democracy endorsed 13 candidates of which 11 won their elections.

We come before the Senate Committee to oppose S. 1701. This legislation is neither needed nor wanted by Northwest ratepayers.

Passage of S. 1701 would be a major step backward in building consensus in the region for a legitimate solution to WPPSS. The citizens of the Northwest are now demanding greater involvement in energy decisions. Yet S. 1701 restricts public involvement by creating an appropriate entity which has no democratic control and does not require voter approval of its bond issues, something Washington voters demanded by passing initiative 394 in November 1981. Therefore, S. 1701 is unacceptable.

But don't take our word for it. A recent editorial in the Wall Street Journal entitled, "Beefy Bailouts: First Big Mac and Now a Whopper?" [Wall Street Journal, Aug. 26, 1983], states:

> One of the root causes of the Whoops default is that the spending and borrowing of "off-budget enterprises" (OBEs) like Whoops do not appear in the budgets of the government entities that create them. OBEs raise funds not through taxation, but by issuing revenue bonds that are not voter approved. Consequently, these OBEs are detached from taxpayer scrutiny and control and are exempt from many of checks and balances that exist for entities in the public and private sectors. The incentive problem that plagues public enterprises generally because of the absence of profit motive and other market constraints are amplified by OBEs because they also lack political constraints.

In other words, why try to solve the problems of WPPSS by passing legislation which begs for the new entity to maintain all the bankrupt characteristics of the old WPPSS? Passage of S. 1701 would show that Congress has learned little from the mistakes which caused WPPSS in the first place.

The need for S. 1701 and the assumptions behind that need are questionable at best and sinister at worst. Yet, no matter what the motive behind S. 1701, it is simply bad public policy.

S. 1701 originally introduced in the Senate as a rider to the Bonneville appropriations bill, was drafted at the behest of four private utilities, investor-owned utilities [IOU's] which own 30 percent of plant No. 3. The privates were responding to Bonneville's decision to mothball the reactor for 3 years.

The IOU's were and are legitimately concerned, from their narrow viewpoint, that a mothballing would mean the sunk costs for plant No. 3 could not end up in their ratebase, thus forcing stockholders to shoulder the debt burden.

However legitimate, concern for the financial plight of four IOU's is no excuse for adopting a public policy of completing a plant of questionable need for a cost of at least $1 to $2 billion to be paid for by Northwest electric ratepayers. Even Bonneville's studies are showing that the Northwest energy surplus is so great that any additional power from plant No. 3 added to the Federal base system will further erode Bonneville's ability to sell the surplus power at a profit to the region.

If the assumption for the need for plant No. 3 no longer is based on factual information and in fact available, independent studies show the cost ineffectiveness for completing plant No. 3 now, why then all the rush to pass S. 1701?

This bill sets no spending limits on BPA's underwriting of plant No. 3, asks the Washington State Legislature to create a second WPPSS, asks public power ratepayers to bail out private utility investments—ratepayers already reeling from the effects of 300 to 400-percent rate increases over the past 4 years—and moves too quickly toward completing a plant and putting it on line before it is cost-effective to do so. We see your consideration of this bill as a chance for you to act courageously and in the best fiscal interest of the region by rejecting S. 1701.

Senators, we hope and pray you will act in the true public interest and reject the short-sighted temptation to pass this bill.

The CHAIRMAN. Thank you.

## STATEMENT OF STEVE ZEMKE, CHAIRPERSON, DON'T BANKRUPT WASHINGTON

Mr. ZEMKE. My name is Steve Zemke and I am chairman of Don't Bankrupt Washington. Don't Bankrupt Washington is a statewide organization of Washington ratepayers dedicated to controlling the spending of the Washington Public Power Supply System. Over 11,000 Washington citizens have financially supported Don't Bankrupt Washington. These same citizens and others were instrumental in passing and defending Initiative 394 which required voter approval before WPPSS could spend the public's money. Initiative 394 arose out of the frustration caused by a mismanaged, out-of-control public agency which had a blank check.

Initiative 394 was passed in November 1981 with a 58-percent yes vote. A record $1.35 million was spent against it. The essence of the initiative was that WPPSS should be accountable to the ratepayers who must pay the bills. We believe that no public agency should have a blank check. That is why we strongly oppose S. 1701. We think you can understand our opposition, faced as you are, on a national level, with record breaking deficit spending and the problems these deficits are causing.

S. 1701 ignores the strong message that the passage of Initiative 394 signifies. S. 1701 is a step backward, a further retreat from public accountability of WPPSS. It is a desperate attempt by a few vested interests to push their rejected philosophy onto the majority, no matter what. The attempt to pass S. 1701 can best be described as a kind of ego or macho politics, a blatant effort to complete the WPPSS plants at any cost without regard to following prudent utility practice. Prudent utility practice would require an ongoing evaluation of the cost effectiveness and need for the energy from these plants. The following summarizes some of the reasons for our opposition:

One, S. 1701 authorizes the creation of a new entity which can further indebt ratepayers while decreasing their ability to publicly participate. For example, public utilities are removed from participation in the budget oversight process—a retreat from existing public accountability.

Two, S. 1701 would give this new entity a blank check, just like WPPSS has had. It would have unlimited spending authority. The drafters of S. 1701 have obviously chosen to ignore the lessons which should be learned from WPPSS. Such blank check authorization is simply a form of taxation without representation.

Three, S. 1701 completely reverses the current priorities set by Congress for the Northwest Regional Power Plan. S. 1701 states that to determine cost effectiveness, one need only compare WPPSS No. 3 to other generating resources, which ignores conservation.

Four, it will be very difficult for Washington ratepayers to monitor a regional entity. It is hard enough to keep track of what happens to WPPSS now, let alone try to also watchdog and monitor meetings in Idaho.

If the Senate wants to pass legislation to help resolve the WPPSS mess, we suggest the following:

One, remove WPPSS plants 1 and 3 from their grandfathered position in the Northwest power plan. When the present plan is updated 2 years from now, let plants 1 and 3 be evaluated along with other potential resources as to their cost effectiveness and the need for the power.

Two, let the largest possible number of ratepayers affected by future decisions on WPPSS Nos. 1 and 3 cast an advisory ballot on whether they want to spend more money to complete these plants.

Three, remove BPA from its oversight capacity of WPPSS. BPA has repeatedly failed to adequately oversee these projects in the past. We think that future decisions should only be made by elected representatives of the public.

Four, oppose any further funding of the WPPSS plants unless long-term financing is guaranteed. Edward Carlson, in his report to the Governor on WPPSS plants 4 and 5, noted that the private sector would never have built the plants unless total financing had been guaranteed from the beginning. If the banks want to profit from the interest paid by the ratepayers, let them take some of the risk and undertake long-term financing.

The CHAIRMAN. Thank you very much.

## STATEMENT OF BARBARA ZEPEDA, BOARD MEMBER, WASHINGTON DEMOCRATIC COUNCIL

Ms. ZEPEDA. I am Barbara Zepeda, and I am a board member of the Washington Democratic Council, and I am practicing the Golden Rule here today because of a small business, I have to fill out forms, and I am not going to give you any piece of paper because I know every piece of paper I get sets back our production.

I am here today to ask you to give the IOU's the IOU's. The IOU's, the investor-owned utilities, are the ones that were in our city hall testifying that they wanted WPPSS financed because they couldn't afford to do it. At that time citizens in Seattle, who objected to this in the midseventies, weren't even allowed to speak before the Energy Committee. We are allowed here today to repeat what we said all during the seventies. If the IOU's wanted it, then let them pay for it.

I would like to add to my statement that our Government, the Washington Democratic Council which consists of about 500 members of the Democratic Party across the State have been concerned about this issue for a long time. We believe the public money should be used for public purposes, and we don't believe in a Robin Hood theory of municipal bonds are subsidizing by the corporations when we can't even finance farmers who go bankrupt or small businessmen who go bankrupt, we allow them to go bankrupt.

Labor unions have not yet realized they are not taking the capital out of the market. We spend $3 for every $1 that is spent to produce something. We end up giving the banker $2 out of every $3 that comes out of the taxpayers' or ratepayers' pockets. You do not create those jobs, certainly not construction jobs. It is not the difference in the productivity of the American workers; it's the difference in the productivity of the American capital. The real capital costs in the United States, and that's why we don't have capital paying jobs, is 16 percent. The real cost of capital in Japan is 6 percent.

Now, there isn't one religion in the history of the world that has ever said, you can't practice their religion and charge over 6 percent, and I mean we are doing it. I don't care what religion you come from, if you're Lutheran or whatever, it's unchristian. Basically, we can't do it with municipal bonds when you are giving that above 12 percent tax free to the very rich people. This country was not created to tax the poor or to protect the incomes of the rich, so why are we doing it now.

This is essentially a repeat, and I would urge you to look to what made this country great, and it didn't become great because of all the wealth of this Nation and the financial institutions. I know it does allow high rises to be built, but it takes money out of the creation of homes.

The CHAIRMAN. Thank you.

## STATEMENT OF JOHN BOLAND, CHAIRMAN, WASHINGTON VOICE OF ENERGY

Mr. BOLAND. Thank you, my name is John Boland. I am the State president of the Washington Voice of Energy. I am from Richland, Wash. You have my prepared statement, and I would like to read from portions of that just to identify my group and then, digress to some thoughts that occurred to me while I was out in the audience listening to testimony.

These statements are on behalf of the Washington Voice of Energy [WAVE], which is W-A-V-E, a nonpartisan statewide group dedicated to education for the populace and all energy matters. WAVE seeks to develop and inform the public, which recognizes that a nation short of energy is a nation short of jobs, food, goods, and service. We support increased commitment to the development to domestic energy sources and establish the energy independence of the United States. We advocate utilization of all established sources to develop an alternative source consistent with technical or economical supply and environmental limitations in the most prudent use of each source.

WAVE endorses conservation and efficient energy sources to improve the quality of life and to reduce waste but opposes excessive governmental control and taxation as a means to force conservation. WAVE supports those regulations which are necessary to protect health, safety, and the environment but opposes the delay and expense caused by obstructive litigation and overregulation.

I will digress a little. Senator McClure, you touched on the forecasting aspect; the forecasting, it seems, is an educated guess, at best.

Traditionally, the utilities overestimated electrical needs but only by a small margin. It's far better to overestimate than underestimate; over estimation may possibly be economically undersirable, underestimations is definitely undersirable if not catastrophic. In this case, it seems our members are a little short and some history is in order. In the 12 years ending 1979, electrical consumption increased. It averaged over 3.9 percent per year, almost a full 4 percent per year increase in electrical consumption. One year the increase was 7 percent. Now, this was for Bonneville Power Administration figures; this was as recently as 1975. This kind of growth calls for a major central power unit coming on line about every 2 years. Three to four years ago in a water short year, the populace was being begged not to use even outdoor advertising, not to even use Christmas tree lights because the power was so short. The energy supply we have now, the surplus we have now, can virtually disappear overnight.

The Northwest has led a very sheltered electrical height so far based on the availability of low cost hydropower. Power that is low cost only because the dams were built a long time ago. We are out of low cost hydro; we are soon to be out of low cost conservation. We have to plan now for the next 20 to 50 years because of the long time it takes to produce major power projects.

The Census Bureau just released some figures, just got those out of the paper last night, that indicates by the year 2000 the State of Washington will have an increase in population of 1,700,000, an increase of 14 percent. Oregon will increase 1,400,000, a 53-percent increase in population; Idaho will increase almost 600,000, up 60 percent. Now, from the present levels with that kind of increase, we have got to plan now to handle that population growth. It can only be done through the use of all facilities, coal, nuclear, conservation, thermal, whatever cost-effective available resources we can tap. To go back into my estimates, if I have the time, the Voice of Energy strongly urges that legislation be adopted that allows completion of not only supply system units 2 and 3, but specifically, includes completion of WNP-1, which is 63 percent complete. The legislation should have hired BPA to market surplus power at market rates anywhere it can and constructing it where the power is needed. To this end, BPA will be able to sell bonds backed by the strength of the Federal Government so as to rule out the lowest interest rates possible.

Additionally, such a bond issue at, perhaps, 10 percent or lower interest could be used to retire some $2.3 million of bonds and marketed at between 14 and 15½ percent, that should be 15¼ percent, used to finance units 1, 2, and 3, greatly reducing the ultimate cost of the power to the plants. I did a very brief calculation just now in the lobby from some supply system figures showing that on WNP-1, the last two bonds issued floated in 1981 and 1982, totaled $700 million. These were at the rates of 14.77, 14.79 percent, roughly 4.8 percent interest.

If these same bonds could be refloated with the strength of the Federal Government behind them to achieve a 10-percent rate, that would result in the savings of $1.15 billion on plant No. 1, a very significant reduction in the cost of marketing those plants. It can be done and it can be done today.

[The prepared statement of Mr. Boland follows:]

WASHINGTON VOICE OF ENERGY
P. O. BOX 1472
RICHLAND, WA
99352

John Boland
State Chairman

## STATEMENT REGARDING LEGISLATION ADDRESSING THE ELECTRICAL POWER PROBLEMS OF THE PACIFIC NORTHWEST

This statement is on behalf of the Washington Voice of Energy (WAVE), a non-partisan statewide group dedicated to education of the populace in all energy matters. WAVE seeks to develop an informed public which recognizes that a nation short of energy is a nation short of jobs, food, goods and services. We support increased commitment to the development of domestic energy sources and establishment of an energy independent United States. We advocate utilization of all established energy sources, development of alternative sources consistent with their technical, economic, supply and environmental limitations, and the most prudent use of each source. WAVE endorses conservation and efficient energy usage to improve the quality of life and to reduce waste, but opposes excessive governmental control and taxation as a means to force conservation. WAVE supports those regulations which are necessary to protect health, safety, and the environment, but opposes the delay and expense caused by obstructive litigation and over-regulation.

WAVE was formed to mobilize those people in Washington State who strongly believe in responsible energy policy, and who do not believe their views are being reflected in the current energy debate. We are especially concerned that groups such as "DON'T BANKRUPT WASHINGTON" and the "NORTHWEST CONSERVATION ACT COALLITION" are more interested in a political agenda that excludes the nuclear option than they are in the economic well-being of the residents of the region. In fact, it seems to us, that they are actually willing to bankrupt Washington State and the region to achieve this agenda. Indeed, the edges of the storm they have created here has spread far, and is affecting the borrowing ability of every city, county and state in the United States.

The Washington Voice of Energy strongly urges that legislation be adopted that allows the completion of not only Supply System units 2 and 3, but specifically includes completion of WNP-1, which is 63% complete.

The legislation should empower the Bonneville Power Administration to market surplus power at market rates anywhere it can, constructing the interties to deliver the power if needed. To this end, BPA should be enabled to sell bonds backed by the strength of the Federal Government so as to realize the lowest interest rates possible. Additionally, such a bond issue at perhaps 10% or lower interest could be used to retire some $2.3 billion of bonds marketed at between 14% and 15½% used to finance units 1,2, and 3, greatly reducing the ultimate cost of power from the plants. The BPA bonds would be retired by revenues from power sales, and not paid by the Federal Government and thus would not be viewed as a "bailout".

Finally, any legislation dealing with the power problems of the region should heavily emphasize the need to develop energy sources that are not only safe, reliable, efficient, and economic, but such legislation should mandate that those energy sources free the United States from dependence on foreign fossil fuels.

It must be recognized that the nation with the most abundent energy is the nation with the least distance economically between the highest and lowest classes, and is the nation with the highest standard of living for all its people.

Thank you.

The CHAIRMAN. Thank you.

Now we call on Mr. Dan Ashburn.

## STATEMENT OF DAN ASHBURN, PRESIDENT, PUGET SOUND CHAPTER OF WASHINGTON VOICE OF ENERGY

Mr. ASHBURN. The Washington Voice of Energy is a grassroots energy advocacy organization that promotes abundant energy sources at a reasonable price. Since WAVE neither supports any particular resource nor eliminates any, the questions that surround the Washington Public Power Supply System, and our concerns, could apply to any large-scale energy project with an equal amount of interest.

Senate bill 1701 appears to be fairly simple in its intent, giving the Bonneville Power Administration the authority to enter into an agreement with a new financing entity which will secure sufficient funds to complete construction of the supply system projects Nos. 2 and 3.

We do not know that this bill will accomplish what really needs to be done, namely to find a permanent solution to the financial problems of the supply system, nor will we profess to have the wisdom of Solomon that may be necessary to find such a solution. But, to the detractors that are fighting this bill as they have fought the development of virtually every new large-scale energy project, we challenge you to propose a reasonable alternative. Anyone can tear down a structure or an organization; it takes men and women of vision to build for the future.

This has been proven throughout history, and as close to home as the Grand Coulee Dam. Many newspapers throughout the Nation and within the region documented the battles over this dam. The arguments used back in the thirties, that the project was too costly; that the power was not needed and never would be; and that the consumers and taxpayers would be saddled with a huge debt. They all sound quite familiar today. Men and women of vision persisted in what the factual information available showed to be a viable project, and our region is still reaping the rewards of their efforts.

Any debate about this bill needs to answer two basic questions: First, should these plants be completed; and, second, how should they be paid for? This should not be a debate over the fact that these plants are nuclear powered.

If these plants are to be completed, a new method of financing is needed since the supply system has been barred by the bond markets from raising capital in the conventional method. They are barred because of the default on payments for bonds sold to finance units 4 and 5. If a new method of financing is not found, units 1, 2, and 3 will not produce the revenues necessary to pay for their bonds. These bonds will then either be paid by revenues raised through the BPA and our region will be paying for unfinished plants, unable to generate power, or the members of the supply system and the BPA could choose to default on these billions also. I do not believe the citizens and ratepayers of this region accept either alternative, but, rather, feel these plants are going to be needed, and should be completed.

If the decision is made to not complete these plants, then the method for paying their debt must be determined. We do not expect a bank, lending money to build a house, to let its builder walk away from the unfinished dwelling and forget the debt. In like manner, municipal bonds have never been considered a speculative investment, but something very safe—something that a retirement fund could be built upon. Today, many hundreds of people have had their retirement plans shattered or severely altered by the default on units 4 and 5 bonds. I may add there is something like 9 percent of the most recent bond issues that are unregistered bonds. That means they were sold to individuals. I can't believe all those individuals are in the upper 50 percent tax bracket alleged.

Logic would suggest that the simplest method to fund completion of units 1, 2, and 3 would be for the BPA to raise its wholesale rates across the board an amount sufficient to quickly complete unit 2, and fund the continued construction of unit 3 and unit 1. Unfortunately, this alternative has been rejected as politically unacceptable due to so-called skyrocketing electric rates in the region. The truth of the matter is that the area serviced the BPA has, as a region, the lowest electric rates in the Nation and, most likely, are among the lowest in the world. It is not difficult to realize why there is little sympathy for our plight, especially by ratepayers and their elected officials in regions that pay three to four times what we pay for electricity. And to those who claim this method has its greatest impact on the poor and elderly consumers, why not work to develop a method of mitigating the impact on these groups instead of attacking all reasonable proposals in their name.

Opposing the completion of the supply system projects in the name of consumerism smacks of hypocracy. We are all ratepayers and taxpayers—we will pay for these projects whether they are completed or not.

The Washington Voice of Energy urges the Senate and its Committee on Energy and Natural Resources to put forth their best effort to assure the completion of these plants in the most timely and cost-effective manner possible.

[The prepared statement of Mr. Ashburn follows:]

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WASHINGTON VOICE OF ENERGY

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D. J. Ashburn, President
Puget Sound Chapter

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Thank you.

The CHAIRMAN. Thank you very much, gentlemen.

I have one question that I would like to ask Mr. Lazar. I think there may be others who want to respond, too. What interest rate is included in your assumption of financing costs?

Mr. LAZAR. In making my calculations, I assume a 13-percent bond rate for both public forces and for public utilities, which is quite lower than the present WPPSS bond rate, about 15 percent current yield. I support 17 percent of cost of equity for the project utilities, 15 percent for cost preferred stock, and there are two attachments to my testimony, one is my response to Senator Metzenbaum's question, the other is Washington State Senate and Pacific Power and Light estimate of the cost of completion of No. 3.

The Senate was $0.24 per kilowatt hour in 1982, Pacific was $0.19. I used the same capital amortization methodology that the Pacific used except that I internalized the depreciation and made sure of some facts about the charge factor. It was a standard technique so you wound up with a 20-percent consolidated annual charge factor to amortize the private utility forces. The Pacific methodology comes to 21 percent, so I was a little below there.

The CHAIRMAN. And what assumptions did you make with respect to the prices of sale of energy?

Mr. LAZAR. On page 7 of my testimony, I used two different assumptions, two different estimates of the surplus sales price that the region will receive if we increased our current surplus from 40 mills to 60 mills per kilowatt hour. Keep in mind these are what it averages. We do have about 25 percent of the time, such a great hydrosurplus, we can't run our thermal plants at all.

The CHAIRMAN. In table 6, you are talking about cost of power?

Mr. LAZAR. In table 6, cost-of-power estimates were $0.10 and $0.16 a kilowatt hour with your incremental costs so to complete all, we are going to pay what's been spent, no matter what; then, we are going to sell the power and increase our surplus.

The CHAIRMAN. At what rate?

Mr. LAZAR. I made two estimates of 40 to 50 mills of kilowatt hours.

The CHAIRMAN. On the sales?

Mr. LAZAR. On the sales.

The CHAIRMAN. And you also suggested at some point—I think it was you, but if it was not I apologize, and whoever made the statement himself can identify—something about an impact on the U.S. Treasury, the cost to the U.S. Treasury.

Mr. LAZAR. Yes, that's detailed in the attachment of my testimony and response to Senator Metzenbaum's question. Because plant 3, if completed, would add more to Bonneville's revenue requirements than it would to Bonneville's revenue of sale of power, Bonneville has to do one of two things; they either have to raise rates or they have to increase their deferral to the U.S. Treasurer.

If they raise rates as they have in the past, they are winding up with a larger and larger portion of their costs being fixed and Bonneville has been concerned about this because in a warmer year or a dryer year or a recession year, they come up short with money. If they underestimate people's ability to respond to supplies, they come up short with the money. The way Bonneville deals with other shortfalls is to defer payments to the U.S. Treasurer.

The CHAIRMAN. So, your assumption is that there will be further deferral, whether it's an impact on the Federal Government or——

Mr. LAZAR. You increase the aspect of deferral.

The CHAIRMAN. Thank you all very much. I appreciate your testimony.

We have some witnesses later on who have suggested that they need to leave shortly after lunch. We will probably not reach them by that time. It would be contention of the Chair, at least tentatively to go through the testimony of panel No. 3 and panel No. 5 and then break for lunch, and then return with panel No. 4. If people have problems with that, I hope they will identify them to the staff.

We will call upon panel No. 3, Mr. George S. Wheeler, Mr. Steve McLellan, Mr. Rollie Wulff, Mr. Herman Bedke, Ms. Emily K. Mahr, and Mr. Matt Dillon.

Mr. DILLON. Mr. Chairman, I believe that I will be participating in panel No. 4. I am Matt Dillon.

The CHAIRMAN. All right, thank you.

## STATEMENT OF GEORGE S. WHEELER, PRESIDENT, MASON COUNTY PUBLIC UTILITY DISTRICT ASSOCIATION

Mr. WHEELER. Senator McClure, Senator Gorton, members of the committee, my name is George Shaw Wheeler. I am a retired professor of political economy and am president of the Mason County PUD No. 3 Owners Association. At its last regular meeting our association instructed me to testify in regard to this bill, S. 1701. They instructed me to be quite blunt in my comments.

We regard this bill as a basic violation of capitalist principles in that it is a bailout or subsidy of an obsolete technology that is being rejected as not cost-effective by market forces. It provides a means of investment and payment to primary obligees for projects not approved in any manner by those citizens who will have to pay for the projects. The bill places all power in the hands of one person, the BPA administrator, with no adequate curbs on that power nor representation of the public utility districts or the ratepayers.

Under the net-billing arrangements which this bill extends, there is a very confusing mixture of public and private interests and ownership, a use of public power and funds on behalf of private interests, and delegation of vast administrative powers without any corresponding responsibilities. This has led to disaster in the case of WPSS and we are surprised and indignant that S. 1701 incorporates many of the same flaws. In light of the Washington State Supreme Court decision of June 15, 1983, we are convinced that this delegation of authority is unconstitutional.

The bill places no limitation on the number of projects or the amount of costs that could be incurred by the administrator or the entity or entities created. The result may be an addition to electric power rates that may drive many firms from business and cause extreme hardships to many persons. This is not just crying wolf. We are already suffering huge costs from miscalculation of needs, mismanagement, and wrong engineering as is shown by the attached chart of current costs of power distributed by BPA to preferred customers. This is a chart based on official BPA data and prepared by a member of the staff of our PUD No. 3.

Note that although all of the power came from the Columbia River hydro system that cost was only 14.5 percent of Bonneville's wholesale cost. In contrast, the nuclear plants, although they produced no power during this billing period, accounted for nearly half of the total bill. The Trojan plant was idle because of the surplus of existing hydropower, a surplus that is expected to continue for several years. We are fortunate to have this surplus since it gives us time to reexamine needs and to develop alternative, renewable, and nonpolluting sources of energy. Our State is unusually rich in such resources, tidal, solar, wind, and geothermal. The technology for using these resources is developing rapidly and costs are sharply declining.

Tidal power, long opposed and neglected in the United States, has for some years been producing electricity in France for around $0.02 per kilowatt hour. The conditions for tidal power in Puget Sound are much more favorable, and it is a scandal that they continue to be neglected. The low-head technology is already available and is environmentally completely benign. Puget Sound tidal power need not involve dams or other obstruction to fish or transport, yet is so vast in amount that it may someday rival the Columbia River system.

To conclude this brief summary, it is time that we faced up to the mistake of investing billions in boiling water technology and shifted to new and more effective forms of producing power. This legisiation only prolongs the agony of the death of that technology at a very high economic cost. It also undermines one of the basic tenets of the original legislation that developed our splendid low-cost Columbia River hydro system: public control. We think that S. 1701, and its relatives should be allowed to die as gracefully as possible.

Thank you.

## STATEMENT OF STEVE McLELLAN, WASHINGTON PUBLIC INTEREST RESEARCH GROUP

Mr. McLELLAN. Good morning. My name is Steve McLellan and I represent WashPIRG, the Washington Public Interest Research Group. WashPRIG is a research and advocacy organization formed at the University of Washington in 1976. It currently has chapters at the University of Washington and the Evergreen State College, as well as a large community membership.

WashPRIG opposes S. 1701. There are many reasons to oppose a bailout of WPPSS, some of which I am sure will be touced on by other speakers. In our brief time we wish to focus on our major concern which is the effect S. 1701 would have on public participation and control in the power planning process.

S. 1701 would further dilute public control over power generation in this region. The WPPSS saga is a well-documented tragedy, with mismanagement by Bonneville and WPPSS leading to massive cost overruns, enormous public debts, and default. Responding to this mismanagement, the voters of Washington overwhelmingly passed initiative 394, which was designed to give the public an effective voice in power planning.

While the initiative was unconstitutional as applied to the WPPSS plants, the message was clear: people wanted control over major power projects in this State. S. 1701 would make a mockery of this public desire. It would allow an unspecified entity to sell bonds and give even more money to WPPSS. BPA would guarantee repayment and recover its costs through rates. This is handing a blank check to a proven spendthrift while removing all public control. We cannot support a scheme which tries to solve the WPPSS problem by further trusting its principal creators with more public money.

Washington ratepayers should be extremely concerned about any entity that has the ability to issue new bonds for WPPSS and guarantee repayment. Such an approach has already been considered in this State and the scope of powers such an entity would have is troubling. Under a Freedom of Information Act request we recently received a document from BPA entitled "A Debt Reduction Plan for Washington Public Power Supply System Projects 4 and 5 Participants." This plan was developed by the Seattle-Northwest Securities Corp. for the Resolution Committee of the Washington Public Utility Districts Association. This plan envisioned creation of a Washington Municipal Refinancing Authority [WMRA] which would issue new bonds to municipal utilities and which would have extraordinary means to be specified in legislation to insure that the individual utility bonds it holds are repaid by the utilities.

In a companion document the WMRA is envisioned to have a backup utility tax authority or some other means to additionally insure payment of its bonds. Obviously, the creation of a new entity to bail out WPPSS is not a new idea. The WMRA proposal raises some questions that can be readily applied to S. 1701. Would the entity of S. 1701 have similar extraordinary means at its disposal to insure payment of its bonds? If so, what protects the public from more WPPSS mismanagement and cost overruns? How will the public be consulted about their preferences for the future power sources we rely upon? It appears that under S. 1701 BPA would have virtually unlimited discretion to give WPPSS money and enforce its decision through rates.

Clearly WPPSS does need help. A document we received from Bonneville under our Freedom of Information Act request describes a marketing strategy for a WPPSS rescue plan which includes prayer meetings with opponents and neutrals such as ratepayer groups and Governor Atiyeh of Oregon. Perhaps a miracle is in order. It certainly will not materialize if the public is excluded from participation in the WPPSS solution. Any plan to rescue WPPSS must include the ratepayer from its creation through its implementation. If not, as you know, it will encounter certain hostility and probable failure. A plan like S. 1701, with its unspecified entity dishing out even more money to WPPSS, can serve only to increase public cynicism about our institutions.

Thank you very much.

## STATEMENT OF ROLLIE WULFF, CHAIRMAN OF THE BOARD, NORTHWEST CONSERVATION ACT COALITION

Mr. WULFF. We are hoping you, our elected representatives, will help protect us from fools and scoundrels. I know that is a large order, but we have found recently that we have been able to find the support we need in Washington, D.C. Before I talk about the fools and scoundrels and the protection we need, you might like to know a bit about the people who are asking you for help.

I am speaking for the Clark County PUD Owner's Association. I am a board member, past president and represent the owner's association on the board of the Northwest conservation act coalition where I am serving as the newly elected chairman. I consider this new position an honor and a welcome responsibility. You know the coalition from our fruitful efforts to help shape the 20-year regional power plan and, most recently, from the excellent testimony of our executive director, Mark Reis, before your committee in D.C. on August 3. I believe the name of the coalition will be written large in the history of citizen participation in major public policy formulation when the fascinating chapter dealing with the regional power council and the regional plan is finally written.

We thank you for the opportunity for participation afforded us by you when you included that portion of the Regional Power Act which established the council and mandated the plan. That action, the council's good work and congressional support give us the power to control our destiny to a significant degree.

The owners' association was formed in Clark County in September 1981—2 years ago, before WPPSS hit the fan—by several individuals with a history of knowledge and interest in energy policy and public power. As the first president I attended nearly every minute of nearly every weekly board meeting of the Clark County PUD from December 1981 till May 1983. We participated in the public discussion of every issue—not just the flashy ones—faced by our PUD during those trying times. We count as our first major victory the decision by the Clark County PUD to reject the mothball plan for plants 4 and 5. A corresponding loss was the PUD decision to advance loan funds for the termination program, which turned out to be mothball in disguise, an additional several million dollars of ratepayer money lost in Clark County.

More recently the owners' association joined the Chemical Bank suit as a defendant, along with four other groups and numerous individuals, on behalf of PUD ratepayers when we judged that the utility defendants were unwilling or unable to argue those legal points most likely to uphold our contention that the debt for plants 4 and 5 was unjust and unenforceable upon the ratepayers of participant utilities. Please note that, contrary to much public opinion, the major participant utilities did not argue for a lack of authority ruling. Ratepayer attorneys, in a brief written by University of Washington law professor William Rogers, along with attorneys from many of the Co-ops and several smaller PUD's put forth the prevailing arguments. Major participant utilities, forced to defend themselves by virtue of the Chemical Bank action alleged contract impairment, et cetera, et cetera.

These utilities should not be receiving the constant blame or credit for weaseling out of a contract they signed in good faith. Our judgment was that the utilities would have lived up to these contracts if it had not been for our participation. We said that the contracts were illegal and we were upheld by the Supreme Court of the State of Washington.

This constant blame that I refer to is typical of the sensational, monotonous and effective—I fear to a large degree—campaign of disinformation practiced by fools and scoundrels regarding the entire WPPSS debacle.

I would like to deal briefly with one specific item in this campaign, but first I should identify, by class, not by name, the fools and scoundrels to whom I refer and from whom you must protect us.

The scoundrels are those utility industry spokespersons, whether from private utilities or BPA or WPPSS or public utilities, labor, business and financial community leaders and politicians from the local level to the national who know, or have access to the knowledge, that further expenditure of ratepayer dollars on thermal generation facilities in the Pacific Northwest is, for the foreseeable future, not cost effective. It is, rather, potentially so counter-productive as to obviate the necessity of that resource acquisition by causing more price-inducd conservation than the resource will generate.

Some of these scoundrels are in a position to personally profit from the build generation and sell power syndrome; whether through business activity, financial investments, or their own employment. Others are the associates, friends, or otherwise willing advocates, or tools of the first order of scoundrels.

The fools are simply those people who believe the scoundrels in spite of their own access to the information which clearly shows that conservation, the efficient use of those energy resources now available to us, will, if fully and cost effectively utilized, provide for all regional energy needs well into the 21st century.

Consider with me now the principal theme of the campaign regarding S. 1701. We constantly hear, and read, this; since plant No. 3 is so far along we must finish it or we will never recover any of those costs already invested.

If I believed that we actually could recover any of those sunk costs associated with plants 1 and 3, I would not be opposing some form of legislation to allow the continued construction of those plants. I would be opposing this bill for many of the reasons which others will detail today. But clearly, the power from them is so unnecessary that we will never be able to sell enough electricity for a high enough price to recover even the remaining costs of construction, operation, and decommissioning, let alone any sunk costs.

I even doubt if the remaining costs of plant No. 2 will ever be recovered from operation, but it is so nearly finished that the conventional wisdom regarding construction completion probably should prevail. The strict test of cost effectiveness, if rigorously applied, will probably support or position that fuel loading should not now, and perhaps never, occur.

The embarrassing spectacle of a useless nuclear facility sitting on the Hanford reservation can be effectively countered by full utilization of the technocultural benefits of having a completed reactor, uncontaminated by radioactive materials, available as a museum/monument to obsolete nuclear technology. Surely many millions of dollars could be collected from tourists and students of nuclear construction and scientific history in the decades to come.

History teaches us that powerful forces often use repetition as the best way to sell an untruth to the world. Experience reinforces that lesson from interpersonal to international relationships. It is extremely frustrating, however, to be forced to answer the same inaccurate and illogical arguments over and over and over. Another current example of this propaganda technique is the statement, we will need the energy in the future, so we should complete the plants now. We must repeatedly reply first to this and then to another statement, often from the same sources, which says "it does not make sense to spend money on conservation in a time of surplus." The ironies involved are obvious. How long will it take, this interminable argument between progressive and reactionary energy policies.

When I ask you to protect us from fools and scoundrels my frustrations are showing, for that I am sorry. Perhaps I am being overly harsh referring to fools but scoundrels is certainly a most decorous term to apply to those who understand the folly of plunging ahead with spending well over a billion dollars of Northwest ratepayers money on the completion of plant No. 3 at this time. Shamefully, they are urging you to pass this bill; we are asking you to let it die.

Finally, we ask you to assist us in the continuing task of adequately informing those of our fellow citizens, your constituents, who do not yet understand what is happening, or what should happen in the future.

Thank you again for your help and support, to date. If your efforts, and ours, are effective the Northwest will soon have a success story to tell the world which will easily eclipse the bitter failure of WPPSS.

Since we were chosen to be the flagship of the nuclear construction industry for the latter one-quarter of the 20th century, and therefore became the bellwether of that industry's failure, it is only fitting that with your help we will show the world how rational energy policy, based on a conservation ethic, can contribute to global economic health.

Thank you.

The CHAIRMAN. Thank you.

### STATEMENT OF HERMAN E. BEDKE, ATTORNEY

Mr. BEDKE. Thank you Senators McClure and Gorton. I am Herman Bedke, practicing lawyer in Burly, Idaho. I am also a ratepayer in three utilities and the way this WPPSS is going, I think I'm going to be an endangered species.

The CHAIRMAN. Lawyers are not being endangered by this.

Mr. BEDKE. I'm not one of those paid attorneys.

Anyway, to represent the people that are involved in this is the ratepayers. There is 13 public utilities or cooperatives, municipalities in the Minicassia area and having a history back to the first dam that was ever constructed in the United States, the Minidoka project. Generation facilities were placed in the dam to pump the water out of the river into the southside pumping district. The people that live on this land are still the ones that I represent. We bought power from the Bureau of Reclamation up until 1963 and at which time, without our consent, we were forced to deal with Bonneville. The Bureau of Reclamation got out of the business and Bonneville expanded their influence on down into Idaho.

I have with me here petitions signed by over 4,000 persons opposing this legislation. I also carry with me a letter from the Mayor of the city of Burly and also the Mayor of the city of Heyburn. I do not represent those two entities. I am merely a messenger for these letters. I would like to place not only my written statement but these petitions in the record.

The CHAIRMAN. The letters will be placed in the record. The petitions will be received in the committee file.

Mr. BEDKE. Thank you.

We feel that the BPA has exceeded its purpose of getting into the generation business. They should be in the distribution of hydroelectric power within the area in which they serve. We have said here that whether or not the completion of No. 3 would be cost-effective, it's not going to increase any more revenue in our area. If prices go up for our electricity to pump water on our farms, our demand is going down and the revenue will go down. We doubt seriously whether No. 3 will ever produce electricity. I doubt further very seriously No. 3 will ever produce it at a cost that can be afforded. We have no representation on WPPSS. WPPSS is a Washington entity.

We in Idaho have no say at all about what happens with the WPPSS project. Some of our cooperatives and utilities, at the urging of BPA, did sign contracts and we are now paying for them. This bill now asks us to go in debt further for approximately another billion dollars. Another billion dollars prorated onto our rate structure will force many of our farmers out of business. I personally, speaking from a personal standpoint, I do operate a little farm and that's where I'm going to become an endangered species, not my attorney practice, but in what these people are speaking about. They're either going to have to go out of business, turn their sprinkling systems off, or back to dry farming, or whatever.

The economy and agriculture in the West, especially in Idaho, is greatly depressed at this time. Now, the ratepayers cannot afford to pay anymore debt into these plants. I wish to emphasize it is not the utility that is paying, it is not the municipality that is paying, but the ultimate consumer of electricity is the one stuck with this bill and we submit that the ratepayers whom I represent adamantly oppose this bill.

Now we oppose it all, I guess maybe we ought to offer a solution. Coming up in the plane yesterday I came upon a solution so simple it scares me. Who's got the money in this project? The bondholders I guess, and BPA, and us. As far as we are concerned, the ratepayers, we will make a gift of our share in the plants of what we have done up to now to the bondholders. Now let's let them make it go. They had the choice when they bought these bonds, more choice than I had whether I'm going to pay them back. Let Chemical Bank form a new corporation. The bondholders can turn in their bonds for stock. That all pays the debt then. They become stockholders, not bondholders, the debt is paid. They have the plant. The three IOU's can have their 30 percent of the plant and the bondholders their 70 percent.

We have heard a lot of people here that are advocating the need for that. Now let them put their money where their mouth is and buy bonds to complete it, private enterprise corporation. Now the new stockholders who were recently bondholders don't want their stock, let the corporation go public and it will even out on the stock market. What do we have? We have just good old American free enterprise solving the problem. And when they get the bonds sold, the million or billion or two bonds and the debt-free corporation with the plant 70 percent built, they can build the lot plant and put the electricity on line so sorely needed and if BPA needs some of it and it is cost effective and I can afford to buy it, I will buy the electricity. If I can't, I won't.

Now we talk about all these studies, about cost effectiveness. I submit that as a ratepayer I'm the best judge of what's cost effective and what isn't. If I can afford it, I buy it. That's the way I've been the last 60 years. If I can afford it, I will buy it. I cannot afford No. 3 to be completed by the way this legislation now would enable it to be done.

Thank you.

[The prepared statement of Mr. Bedke and letters follow:]

HERMAN E. BEDKE
ATTORNEY AND COUNSELOR AT LAW
P. O. BOX 249
111 WEST 15TH STREET
BURLEY, IDAHO 83318

AREA CODE 208
TELEPHONE 678-5574

September 9, 1983

Senate Energy Committee

Gentlemen

My name is Herman E. Bedke, mailing address P.O. Box 249, Burley, Idaho. I am a licensed, practicing attorney in Idaho for over 34 years.

By having an office in the City of Burley, a home in the Unity Light & Power service area, and a farm served by the Raft River Rural Electric Cooperative, I pay for electricity through three different public power distributors. I also represent the ratepayers of 13 municipalities and electric cooperatives in Cassia and Minidoka Counties, Idaho. These ratepayers have formed an association known as the MiniCassia Public Power Ratepayers Organization having a potential membership of over 16,000 persons. I am presenting to this Committee petitions opposing Senate Bill 1701 signed by more than 4,000 ratepayers.

The 13 municipalities and cooperatives first started obtaining public power shortly after the turn of the century from the generating plant at Minidoka Dam, which was installed primarily to pump the irrigation water on the lands now owned by the majority of the ratepayers. The Bureau of Reclamation sold power to these cooperatives until approximately 1963 when the Bonneville Power Administration took over from the Bureau and assumed this function. The sole source of power to these ratepayers comes from the Bonneville Power Administration system.

We oppose this legislation for the following reasons:

1. There is no assurance that Project #3 would be licensed to operate or produce any electric energy whatsoever.

2. That there is no assurance that Project #3, if completed, would ever produce electric energy at a rate that is affordable by the residents and agricultural economy of our area.

3. That the raise in rates to finance the costs of completion of Project #3 would make electric energy unaffordable to many users.

4. We believe that BPA has deviated from its original purpose of distributing hydroelectric power to preferred customers in the Northwest and to get further involved in the construction of power plants would weld it closer to WPPSS. We feel that BPA and WPPSS should completely divorce and BPA be returned to its original function.

5. The whole problem was created without the consent of the ratepayers and now the forcing upon them payment of this enormous debt without their sanction arouses their protest.

We further submit that the Northwest Power Act, which set up the Northwest Power Planning Council, be completely repealed.

For these reasons I respectfully urge you, on behalf of myself and the ratepayers I represent, that Senate Bill 1701 not be passed.

Respectfully submitted

Herman E. Bedke

Herman E. Bedke

COUNCILMEN
CLOYD TAYLOR
L. F. KING
J. A. HENDERSON
GARTH PAYNE
DR. WALTER R. PETERSEN
NORMAN H. NIELSON

"CHUCK" SHADDUCK, MAYOR

E. E. "BUD" BRINEGAR, CITY CLERK

CITY of Burley

OFFICE OF Mayor

PHONES
CITY CLERK'S OFFICE 678-2224
MAYOR'S OFFICE 678-9311
AREA CODE 208

HUB OF IDAHO'S INDUSTRY
BURLEY, IDAHO 83318

September 7, 1983

Honorable Senator James McClure
United States Senate
Washington D.C. 20510

RE: Senate Bill 1701

Dear Senator McClure:

At its regular meeting on September 6, 1983, the City Council of the City of Burley, Idaho, unanimously went on record as opposing the adoption of Senate Bill 1701 for primarily the following reasons:

1. Idaho Rate payers, and particularly Burley Ratepayers have had insufficient access to the Senate hearings on the bill. (The closest hearing being in Seattle on September 9, 1983).

2. Insufficient information is available to the Burley Ratepayers as to the merits of the bill.

3. It appears that the adoption of the bill would further increase the electrical rates to Burley Ratepayers without any resulting benefits.

This letter is transmitted to you, at the direction of the City Council, to form a part of the record at the Seattle hearing and it is anticipated that the City of Burley will be able to give you further information as to the lack of need for this legislation and the affect on the City of Burley Ratepayers when all of these facts become readily available.

By Direction of the Council

Chuck Shadduck

Mayor

**CITY OF HEYBURN**

P.O. Box 147
Heyburn, Idaho 83336
Telephone 678-8158

September 7, 1983

The Hon. James A. McClure
United States Senate
Washington, D.C. 20510

Re: Senate Bill 1701

Dear Senator McClure:

The purpose of this letter is to give written comment or testimony with regard to Senate Bill No. 1701 and any attempt, through legislation, to raise funds directly from participants in Project 3 or customers of Bonneville Power Administration to complete Project 3.

While the City of Heyburn does not yet have a position as to whether or not Project 3 should be completed, it is opposed to any attempt to directly bill participants for the costs of completion on a "pay as you go" basis as has been proposed by the private utility owners in Project 3.

We understand that a proposal has been made to divide the cost of completion of the project among the participants and to bill the participants on a "pay as you go" basis estimated to be over a forty-month period.

If this information is correct, we have calculated that the City of Heyburn would be required to pay the sum of $24,250.00 per month. Please let me assure you that the City of Heyburn is not in a position under its current rate structure or budget to assume such a financial responsibility and genuinely doubts that it is capable of raising such revenue given past, present and anticipated BPA rate increases. We do not believe that the ratepayers in the City of Heyburn are in a position to assume this financial responsibility, regardless of the merits of completing Project No. 3.

Thank you for your consideration of this.

Sincerely,

Harold R. Hurst

Harold R. Hurst, Mayor
City of Heyburn

/dw

The CHAIRMAN. Is Emily Mahr present? The testimony which she was to submit will be made a part of the record.

[The prepared statement of Ms. Mahr follows:]

### PREPARED STATEMENT OF EMILY MAHR

My name is Mrs. Emily Mahr. I live at 3441 Mud Bay Road in Olympia. As a ratepayer, I am against this proposed bailout of WPPSS.

The WPPSS plant at Satsop is not needed, so why should we ratepayers be forced to pay over 1 billion dollars for a nuclear plant that is not needed?

Furthermore, there is no guarantee that this plant will be built without cost-overruns, because this legislation gives the Bonneville Power Administration a blank check to complete the plant. This is the same kind of blank check WPPSS was given to build the Satsop plant, which lead to disastrous consequences. History will repeat itself if you give BPA the same kind of blank check that WPPSS was given. This legislation will bankrupt the Northwest with higher and higher electricity rates for a nuclear plant that is not needed.

Thank you very much.

Emily K Mahr

Emily K. Mahr

The **Chairman**. Just a couple of comments to this panel: Mr. Wheeler, say the bill places no limitation on the number of projects. The bill confines the project to the net-billed contracts project.

Mr. **Wheeler**. Which is unlimited as far as I know.

The **Chairman**. There are net-billed projects already in existence. Those are the ones which the bill referred——

Mr. **Wheeler**. The new contract Bonneville put out gives it the authority to establish many more net-billed projects.

The **Chairman**. Not under this act.

Mr. **Wheeler**. Is that very clear?

The **Chairman**. If it's not clear to you, perhaps we need to clarify the language. Second, regarding the amount of costs and oversights, two things needed to be stated so that we at least have an understanding; and if, as a matter of fact, you don't agree with my statement, I wish you would say so. I know that you were instructed to be quite blunt so I assume you will say so if you don't agree. Regarding the amount of costs, the bill specifically, the legislative history requires they be cost effective, and that analyses must be made; and they have no authority to enter into any new contractual arrangements unless there is a cost-effective arrangement. Second, it also requires that these contracts be submitted to the Congress, and the Appropriations Committee where Bonneville customarily receives their direction for their operation, so there would be the opportunity for electrical representatives to take a look at those arrangements and to determine whether or not they should be stopped. So I think there is some protection stated in the bill and it's legislative history which is not clearly understood. I would welcome your comment.

Mr. **Wheeler**. As an economist it depends on who's making those cost-effectiveness studies very much.

The **Chairman**. OK. From your testimony, that's true.

Mr. **Wheeler**. Judging from the past history of oversights by the Congress of the BPA, I don't have much confidence in that.

The **Chairman**. I can't question the criticism of the past.

Mr. **Wheeler**. I think there is now legislation going forward, for example, from the Senator from our State, Congress, to have more effective cost controls of Bonneville, review of the budget before it's actually submitted, and I think that would be a help, but I'm very leery of this, particularly since all of the studies I have seen indicate that the minimum cost which would come in for plant 3 would be, it can't be less than $0.12 a kilowatt hour. When you compare that with alternatives which could be in place such as tidal power it seems to me the alternatives are much more attractive than finishing No. 3.

The **CHAIRMAN.** I understand. I hope we find more attractive alternatives. You mentioned France and its tidal powerplants. I understand that they have decided to become 98-percent nuclear for electricity by the end of the century.

Mr. **WHEELER.** Because they have a much more limited tidal power than we have.

The **CHAIRMAN.** I appreciate your testimony.

And Herman, I would say you've come up with an innovative solution. I doubt very much you will find a wellspring of support for that from the bondholders, but——

Mr. **BEDKE.** I would be the attorney to form the corporation.

The **CHAIRMAN.** Pro bono?

Mr. **BEDKE.** Pro bono, yes.

The **CHAIRMAN.** Thank you gentlemen, very much.

Next is panel No. 5.

## STATEMENT OF BOB GRAHAM, VICE PRESIDENT, CITIBANK

Mr. **GRAHAM.** Mr. Chairman, I wonder if we could have a change of venue.

My name is Bob Graham from Citibank. I would like to read excerpts of the prepared remarks we have submitted to you. The prepared remarks describe the financing structure developed by the banks in evaluation process that the banks undertake in determining their willingness to provide funds for the financing of the WPPSS share, 70-percent share of No. 3.

Comments we have made do not reflect the reaching of any agreement on any financing program, or its related terms and conditions, with WPPSS, the Bonneville Power Administration [BPA], and the four investor-owned utilities. Our remarks today are consistent with statements we have made from time to time to these interested parties. They represent our views as prospective major lenders and comanagers of a bank financing for the completion of WNP No. 3, under the conditions generally outlined in Senate bills 371 and 1703. When we reach mutually agreeable terms on such a proposed bank financing for the WPPSS shares of WNP No. 3, and we are satisfied with the results of our credit analysis, it would be the banks' intention to have significant participations as lenders to the project. A great deal of work remains to be done before a financing of the extent and nature that we have outlined in these remarks can be successfully accomplished with commercial bank lenders prepared to risk their stockholders' and investors' funds in a WPPSS-related project.

Citibank and Chase have, independently, acted as comanager on certain competitively bid issues of securities by WPPSS for the net-billed units; we have also acted as underwriters on the negotiated sales by WPPSS of net-billed bonds—that is, for projects 1, 2, and 3.

The issuance of bonds by WPPSS for units 4 and 5 were not eligible for commercial bank participation in the underwriting group. To the best of our knowledge, neither Citibank nor Chase is a holder, at this time, of any WPPSS No. 1, No. 2, No. 3, No. 4, or No. 5 bonds for its own account.

The banks were approached individually in early June of this year by the four investor-owned utilities, which have participations in WNP No. 3; they asked if we could see any way in which the commercial bank sector could provide funds for the WPPSS share of the cost of completing construction of WNP No. 3. Independently, the banks reached the decision that they would be willing to undertake a preliminary review of the prospects for a bank financing to accomplish the objective of completing construction of WNP No. 3.

Pursuant to the request of the four investor owned utilities, the banks agreed to undertake a joint review of potential financing structures and their implementation to fund the WPPSS share of completion of WNP No. 3; this relationship between the banks continues and our remarks today reflect our collective views.

Subsequent to these early June inquiries by the investor-owned utilities, the banks had exploratory meetings jointly with them and with representatives of the BPA and WPPSS on June 21 and July 5. Since that time, we have had various independent discussions with representatives of the BPA, WPPSS and the investor-owned utilities from time to time. To the extent practical, all parties have been kept informed of these conversations.

The result of these meetings and discussions, and our preliminary review of the situation, was our stated conclusion that: (1) We would not at this time lend funds directly to WPPSS and, (2) that we needed an eminently creditworthy party to support any loans we might make for the completion of construction of WNP No. 3. As a result of these conclusions, we recommended that: (*a*) An entity independent of WPPSS be established to act as a borrower for the funds to complete the construction of WNP No. 3; and (*b*) the BPA, by means of contractual agreements with this new, independent, nongovernmental entity, provide credit support that would be as equivalent as possible to guarantees by Bonneville—but not a full faith and credit obligation of the United States Treasury—of the repayment of principal and interest under any and all circumstances; and (*c*) the undertakings to be provided by the BPA receive either judicial and/or legislative confirmation as to their validity.

The BPA is, in our opinion, the only potentially creditworthy entity involved in the WPPSS share of the construction of WNP No. 3; however, it was not entirely clear to any of the parties concerned during our discussions that the BPA could enter into the form of agreements being considered despite the fact that, in substance, the arrangements would not be dissimilar to the BPA support for the WNP No. 3 bonds currently outstanding; it was clear that someone would challenge BPA's authority to enter into such arrangements in the courts.

As a result of the foregoing, and of their own determinations, to which we were not a party, a legislative package was developed and introduced by various entities interested in the completion of

WNP No. 3. We provided some input in response to requests from that group from time to time to ensure, to the extent we could, that the legislative package reflected the requirements of the banks.

It is our opinion that the legislation, if passed, and the legislative history, as reported out of the Senate committee, could provide a foundation to proceed with the structuring of a financing for the WPPSS share of the construction of WNP No. 3, subject to the resolution of the banks' concerns which are outlined below.

### TENTATIVE STRUCTURE OF THE FINANCING

The banks' proposal, as we have developed it, would involve the creation of a single purpose, taxable, entity to act as the borrower. It would not be affiliated with the BPA, WPPSS or the investor-owned utilities. This entity, under the direction of the BPA, would arrange commitments of a size which, in the aggregate, are considered sufficient, by WPPSS, BPA and the lenders, to allow for the completion of WNP No. 3—including a provision for unforeseen overruns; based on recent information, we currently estimate this amount to be approximately in the range of $1.2 to $1.6 billion, depending on the additional costs associated with construction delays.

These commitments would be under a formal borrowing agreement, would provide for various conditions governing advances, and carry fees payable to the lenders. The commitment period would extend to approximately December 1988, assuming a December 1987 completion date of WNP No. 3.

Advances under these commitments would be fully supported by an acceptable agreement(s) from the BPA for their repayment. The advance would be used solely to finance construction expenditures of WNP No. 3 and capitalized interest during the construction phase. Funds would be advanced against certificates provided by WPPSS and/or the BPA supporting the need for funds and the continued feasibility of the project. A further certificate will be required stating that no material adverse change has occurred or is anticipated in the business prospects or financial condition of the BPA. The commitments could be reduced by BPA from time to time to accommodate alternate funding sources as they become available.

Repayments of the amounts borrowed would be scheduled to commence approximately a year after the estimated in-service date of WNP No. 3. Principal and interest payments would be provided by the agreement(s) with the BPA and be substantially concluded within 6 to 8 years from their commencement. Prepayments from other sources of borrowed funds would be allowed at any time. The interest rate would vary from time to time as the prime rate varies. The level of increment over the prime rate, if any, has not been determined. Interest rates fixed for periods of up to 1 year may be available.

This structure is a relatively conventional format employed by a number of public utilities to finance the construction of major generating facilities; it lends itself well to insuring that the lenders' commitments are dedicated to a specific purpose and that funds are drawn down only as needed to achieve that purpose. The floating interest rate and repayment provisions allow for refinancing with longer term fixed rate instruments at the borrower's option when conditions warrant.

As mentioned previously, we have not had substantive conversations with the BPA regarding the terms and conditions of a credit to be extended to finance the WPPSS share of the construction of WNP No. 3. Further, our particular role in assessing the financing of the WPPSS share of WNP No. 3 has been limited to funding which may be provided by commercial banks for their own account.

Until these substantive conversations are held with the PBA, and an agreement in principle to pursue a bank financing is reached, it is inappropriate to be more definitive concerning such a proposed structure, terms and conditions of a financing than has been outlined above.

### PROCESS OF DETERMINING THE PROJECT'S FINANCING FEASIBILITY

Commercial banks will only be interested in committing to provide funds for the construction of WNP No. 3 if its prospective completion and operation is determined to be a worthwhile endeavor under reasonable circumstances, particularly when viewed against alternatives; worthwhile and reasonable are essentially determined by those who are responsible for paying the financing bills—in this case the BPA and its constitutents. Further, lenders need to be assured that the security arrangements to be provided, that is, the BPA undertakings, are absolute and unconditional obligations of the BPA and that the BPA, is, and will continue to be, a creditworthy entity in its own right. To achieve the foregoing, the banks, as comanagers for a banking consortium, would expect to undertake the following program, and be satisfied with the results, prior to making any commitments to lend.

One, a review of legislation, legislative history, and the relevant judicial proceedings to assess the BPA's support arrangements for credibility. The banks must have absolute assurance that the legal structure providing for the BPA support arrangement cannot be overturned or otherwise adversely interfered with.

Two, a review of the BPA's creditworthiness to be assured of its ability to meet its various obligations—including repayment of debt incurred to complete WNP No. 3—without imposing undue burdens on the Federal Treasury or the BPA's customers. The BPA undertaking would not constitute the full, faith and credit obligation of the U.S. Government.

Three, a review of the technical, financial, and economic feasibility studies of constructing and operating WNP No. 3. The banks must be reasonably assured that continued construction of WNP No. 3 on the timetable agreed to by the investor-owned utilities, WPPSS and the BPA is a reasonable exercise and is in the best interests of the various parties concerned, given the alternatives. Such an assessment is not expected to reach a definitive, certain conclusion; nonetheless, the weight of analysis and opinion must support the continued construction of WNP No. 3.

Four, a review of available capital markets to provide construction and takeout financing for WNP No. 3; while this will require the banks to be relatively far along in the three areas of assessment mentioned above, it is a process which is less time-consuming; the actual syndication process will not take place until the banks have reached positive, although preliminary, conclusions in all areas of review.

These reviews are undertaken to satisfy the banks, as lenders, as to the reasonableness of the funds they advance, and as to the assurances of timely repayment; they are not intended to warrant to others as to the feasibility or desirability of the completion or operation of WNP No. 3.

Gentlemen, much work remains to be done before the banks could be made confident that financing for the WPPSS share of the completion of WNP No. 3 can be raised. Senate Bill 371/1703 provide a foundation for the effort required to develop a viable financing plan. It is fair to say we would much prefer to see the legislation continue in a form which, in substance, is similar to Senate bill 371/1703. We feel it is important that the legislative history be as unequivocal in its support for the BPA undertakings associated with the banks' proposal as is possible.

Under the best circumstances we currently see prevailing, the raising of the necessary funds—$1.2 to $1.6 billions—on acceptable terms and conditions will not be an easy matter; we trust that if Congress feels that facilitating the BPA's endeavors to complete WNP No. 3, and possibly WNP No. 2, is a worthy exercise, that legislation comparable to Senate bills 371/1703 will be passed with strongly supportive committee language.

While these remarks have been directed to the financing of the completion of WNP No. 3, our reference to WNP No. 2 deserves some comment. It may be quite possible to apply the same financing approach we have outlined for WNP No. 3 to cover the completion costs of WNP No. 2. This could provide a more flexible manner for the BPA in dealing with its anticipated cash flow under its current rate projections. As an example, funds related by borrowing for the completion of WNP No. 3 could be used to bring current its Treasury obligations.

There is obviously a constructive role for the private financing sector in assisting in the completion of WNP No. 2 and No. 3. And the banks look forward to the challenge and to their participation as comanagers in a major syndicated bank financing to facilitate the successful completion of these major additions to the Northwest power resources.

Thank you very much.

The CHAIRMAN. Mr. Zanoni.

Mr. ZANONI. Mr. Chairman, I think in terms of logical sequence it would make more sense for Mr. Meyer to make his remarks first.

## STATEMENT OF EUGENE W. MEYER, VICE PRESIDENT-DIRECTOR, UTILITY CORPORATE FINANCE, KIDDER, PEABODY & CO., INC.

Mr. MEYER. Thank you, Mr. Chairman and members of the committee. I appreciate being here and having an opportunity to make this testimony on Senate Bill 1701. I am Eugene W. Meyer, vice president, member of the board of directors, and member of the management committee of Kidder, Peabody & Co., Inc. I am also director of the utility corporate finance department of that firm. In that capacity, I have been personally responsible for the pricing of over $50 billion of utility debt and equity financing managed by Kidder, Peabody during the past 12 years. Based upon the capital market knowledge and experience I have accumulated over that time, I strongly support S. 1701.

My remarks will focus on the indirect costs currently being experienced by citizens everywhere in the Nation because of the grave uncertainties posed by the Northwest power situation and on the relief which completion of WPPSS projects 1, 2, and 3 could bring those citizens.

May I begin by quoting from the statement of Senator Jackson before this committee on August 3, 1983, before his sudden and sad death:

> The fundamental purpose of this legislation which is before this Committee is to prevent a $2 billion disaster from becoming an $8 billion disaster from which the Northwest and the Nation's municipal bond market might not recover for decades.

The impact of the default of WPPSS 4 and 5 has already manifested itself in higher costs of capital for the State of Washington in a recent bond offering where underwriters estimated that the State was required to pay higher interest rates ranging from 45 basis points to 75 basis points as a result of the WPPSS 4 and 5 default. Pacific Northwest investor-owned utilities' stock prices have tumbled to market book ratios among the lowest of electric utilities in the Nation. It is expected that higher interest rates by some 50-75 basis points will be required when those companies issue new bonds relative to similarly rated utilities elsewhere in the Nation. Finally, WPPSS is now being denied capital from the marketplace. It may be expected that future financing costs for the States of Idaho, Montana, Oregon, and Washington, the State agencies and municipalities, and the investor-owned utilities in those States will be considerably higher until investor confidence in the Northwest region is restored. One can only hope, for the sake of the taxpayers and ratepayers of the Northwest, that such additional costs are not incurred for the decades referred to by Senator Jackson.

But Senator Jackson was also concerned for the viability of the Nation's municipal bond markets. Coincidental with rising concerns about the possible default of WPPSS 4 and 5 bonds, the long-term tax-exempt bond market began to deteriorate. Such deterioration is best measured by the spread between taxable interest rates and nontaxable interest rates. Depending on the starting point, it is reasonable to conclude that the uncertainties of WPPSS 4 and 5 have caused higher tax-exempt interest rates for all issuers of some 100 to 150 basis points, evident by the narrowing of the aforementioned spread. Such higher interest rates result in higher costs of housing, hospitals, roads, sewers, et cetera, imposing a higher tax burden than necessary upon the citizens of the entire Nation.

This, then, is the nature of the disaster to which Senator Jackson referred. It should be clear to the Congress that the bill to be paid for the WPPSS default is national in scope and by no means restricted to the Northwest taxpayers and ratepayers, and WPPSS 4 and 5 bondholders. Furthermore, lingering doubt as to whether WPPSS 1, 2, and 3 will be finished according to contract, causes continued lack of investor confidence in municipal bonds thus insuring that higher cost financing will prevail for as long as the uncertainty persists.

The basic question investors have is whether public entities who issue debt securities are required to honor their obligations to lenders. Is there good faith exchanged when an investor lends his savings to a public entity?

S. 1701, if passed, should go a long way toward stopping the bleeding. It would send a signal to investors that the Federal Government is interested in making sure that its agencies honor their contracts. Furthermore, S. 1701, if passed, can bring considerable relief to the Nation's taxpayers in the form of reduced financing costs for the public's needs in the future. S. 1701, if passed, will enable the financing of WPPSS 2 and 3, and also 1 if deemed appropriate, and can make an important contribution to the economic well-being of the Nation.

Thank you. That concludes my remarks.

The CHAIRMAN. Thank you. Mr. Zanoni?

## STATEMENT OF RONALD A. ZANONI, VICE PRESIDENT AND MANAGER, PROJECT AND LEASE FINANCE GROUP, KIDDER, PEABODY & CO., INC.

Mr. ZANONI. Thank you, Mr. Chairman, Senators, ladies, and gentlemen. My name is Ronald A. Zanoni, a vice president with the investment banking firm of Kidder, Peabody & Co., Inc. I am in charge of that firm's project and lease finance group, which is responsible for financings arranged by special purpose entities, such as those contemplated by S. 1701.

The congressional purpose behind S. 1701 is rather straightforward. In fact, with that legislation designed is provided alternative mechanisms by which the completion bonds of WPPSS No. 3, and, perhaps, No. 1 and 2 can be financed on the basis so that the necessary additional capital can be raised without immediately passing through the BPA ratepayers the full cost of completing that construction. This is a mechanism by which we can hold down BPA rates in the future by advertising those for a longer period of time. We here have to review this particular legislation and the accompanying brass Senate committee report.

My goal in this testimony, is to indicate their comments with regard to whether that legislation and the accompanying reports are appropriate or are capable of fulfilling that. The legislation itself is simple and unambiguous. BPA is expressly authorized to enter into contractual arrangements to pay the costs associated with the Federal base system resources [which include WPPSS No. 3] by paying such costs directly to an appropriate entity or its primary obligees or trustees. The entity that's involved here has only one source of credit support and that's the contractual arrangement between itself and the Bonneville Power Administration.

In order to enable the new entity to finance, there must be no doubt as to the legality and enforceability of BPA's obligations to the new entity. This is especially true here because of the recent history regarding the legal authority of the Northwest's public utility districts to contract with the supply system. The fact that certain holders of the supply system's bonds now face the consequences of default has heightened the marketplace's awareness of the legal authority question to a degree that any doubt on this question would probably be fatal. Because S. 1701 is so direct and unambiguous, I do not believe that any modification to the legislation, as proposed, is necessary.

However, there is another element here that you have to focus on and that is the directive and limitations that accompany that particular legislation and are expressed in the U.S. Senate committee's report. There, I think there may be a problem. My concern is not with the directives and limitations themselves, indeed, they appear to be reasonable steps to protect the public interest and to assure the need for congressional oversight. Rather, I am troubled by the possibility that, if BPA's authority to contract with the new entity is successfully challenged after securities have been sold on the ground that BPA's compliance with the directives and limitations fell short, the fundamental issue of BPA's legal authority might also be open to question and the investors, who parted with their money in good faith, might be left holding the bag. That possible result, I am certain, is not the intention of this committee. Nor is it a necessary result. I believe a mechanism can be fashioned which, on the one hand, gives investors the necessary protection and, on the other hand, preserves for Congress the opportunity to assure itself that BPA is implementing S. 1701 in a manner consistent with the directives and limitations.

The mechanism is pretty simple. In order to keep Congress fully informed of BPA's activities with respect to S. 1701, BPA is directed to furnish the Senate and House Appropriations Committees with any new contractual agreements at least 30 days prior to execution. I believe the dual goals of investor protection and Congressional oversight can be furthered if the language in the Senate Committee report were to include, in effect, the following concept:

> Any contractual agreement entered into by BPA pursuant to S. 1701 at least 30 days after that agreement has been submitted to the House and Senate Appropriations Committees shall be a duly authorized, valid and binding obligation of BPA, legally enforceable in accordance with its terms, unless the BPA Administrator receives prior to the 30th day after the submission date a written notice of objection from the Chairman of either Committee or unless any notice of objection previously delivered within the 30-day review period has been rescinded.

That mechanism permits the following result: Once the congressional committees have had an opportunity to review the proposed contracts and any objections have been resolved, BPA can proceed to execute the contracts. Investors acting in reliance upon BPA's actions can then rest assured that they have a legally enforceable commitment from BPA and subsequent challenges to BPA's actions will not expose them to the same danger that certain holders of Supply System bonds are facing today. It is my considered judgment that the adoption of my proposal will substantially enhance the ability to market the new BPA supported securities. And I also believe that this will ultimately mean a more efficient and less costly financing mechanism.

In closing, let me state for the record that we at Kidder, Peabody are convinced of the clear and compelling need for S. 1701. We, and our special counsel, who has worked closely with us in developing our proposal, are prepared to work with this committee and its staff in every way possible to make sure that the goals of S. 1701 are attained.

Thank you very much.

## STATEMENT OF STEPHEN I. MARTIN, VICE PRESIDENT, HARTFORD FIRE INSURANCE CO.

Mr. **Martin**. Mr. Chairman, I am Stephen I. Martin, a vice president of the Hartford Fire Insurance Co. I am accompanied here today by Mr. Joseph H. Gareau, an assistant vice president in our investment department, and Mr. William C. Foster of Patton, Boggs & Blow, Washington, D.C. We are appearing before you today on behalf of my company, as well as the Crum & Forster Insurance Cos. and the Continental Insurance Cos. We are part of a larger group of interested bondholders that as of September 1, 1983, consists of 23 companies owning approximately three-quarters of a billion dollars in WPPSS project 1, 2, and 3 bonds. Included in this group are insurance companies, bank trust departments and investment companies that represent a substantial number of individual bondholders. We believe that the views and concerns we will present to you are also representative of the views and concerns of these and many other WPPSS project 1, 2, and 3 bondholders.

We are not here today to comment on possible legislative solutions to the problems of the supply system. To do so would, in our view, be not only premature, but also presumptuous, because we know that Gov. John Spellman of Washington and Gov. Victor Atiyeh of Oregon have appointed a blue ribbon study commission, the Governors' WPPSS advisory panel, to recommend solutions to the supply system's problems, solutions which we expect will have to include legislation of some sort. It is then when we would expect to participate with regard to those aspects of the panel's recommendations which are relevant to our interests, and our interests may well coalesce with them on solutions which may be broader based than our immediate needs would otherwise dictate.

Why then are we here now? Because so far public attention has very largely been focused on the situation with regard to project 4 and 5 bondholders whose bonds are now in default, and insofar as visible congressional movement is concerned—that generated by you, Mr. Chairman—attention has been focused only on providing a means for facilitating the financing of the completion of project 3.

We are here as project 1, 2, and 3 bondholders to let you know that even our supply system bonds are in jeopardy. Existing project 1, 2, and 3 bonds were sold with the representation that their interest and principal were to be fully backed up by revenues of the Bonneville Power Administration under agreements entered into by and between BPA, the supply system, and the participating utilities through net-billing agreements which BPA was authorized to enter into by the U.S. Congress. Those bonds were purchased in reliance on that BPA backup. There was no BPA backup for the project 4 and 5 bonds; there is for 1, 2, and 3 bonds.

Project 1, 2, and 3 bondholders are now in jeopardy of losing the benefit of their unequivocal and supposedly airtight guarantees. The danger is this: If the supply system were to file for voluntary bankruptcy, other creditors, including project 4 and 5 bondholders, would, we fear, lay claim to the obligations of BPA to the supply system with regard to the project 1, 2, and 3 bonds on the alleged ground that their obligations become part of the supply system's general assets for distribution to general creditors, thus giving project 4 and 5 bondholders the benefit of a bargain they never made, the benefit of the BPA guarantee which was clearly intended only for project 1, 2, and 3 bondholders. Project 1, 2, and 3 bondholders would counterclaim that their bonds are secured bonds and that the security, the BPA guarantee, is no part of the general assets of the supply system.

Wherever else this may lead, the supply system and its bondholders and creditors will be facing even more protracted and expensive litigation than the system now faces.

A default on over $6 billion of 1, 2, and 3 bonds, whose principal and interest were understood by all concerned to have been secured by BPA revenues, will deal the credit worthiness of public power and even municipal financing in general, and public financing in the Pacific Northwest in particular, a tragic blow.

If BPA were authorized to honor the obligations of its guarantees directly to the trustees of the project 1, 2, and 3 bondholders that authorization would not cost ratepayers one penny more than they are now obliged to pay, but it could save them millions of dollars in the future by preserving investor confidence in the integrity of intended guarantees and making unnecessary sharp increases in the cost of future public financing. Also, by alleviating these concerns, the likely reinstatement of ratings by Moody's and Standard & Poors would rejuvenate the secondary market for outstanding bonds and provide an active new issue for additional bonds to complete project 3.

Whatever else may be identified as critical among the supply system's problems, in our opinion, restoring investor confidence looms largest.

Whatever policy decisions may be made with regard to completing project 3, which is 75 percent completed, if completion makes sense in terms of meeting future power needs, and this we are not competent to judge, then the cost of financing, given today's problems and conditions, should include a role for BPA guarantees, but on a direct to bond trustee basis. This would help minimize the long-term impact on ratepayers. Similarly, it makes good practical economical sense to assure that any new issue for this limited purpose, like the earlier bonds, be tax exempt.

In summary, we submit that restoration of investor confidence in public power financing in the Pacific Northwest should be an overall objective in addressing the problems of the supply system.

Accommodating the needs of project 1, 2, and 3 bondholders in order to assure them of the BPA guarantees they relied on in good faith is an essential part of this process.

Mr. Chairman, we thank you for this opportunity here today. We would like to submit a copy of our full statement.

[The prepared statement of Mr. Martin follows:]

Statement

of

Stephen I. Martin

Vice President, Hartford Fire Insurance Company

On Behalf of

Certain Holders of the

Washington Public Power Supply System's Bonds

on Projects 1, 2 and 3

Before

U.S. Senate Committee on Energy and Natural Resources

Seattle, Washington

September 9, 1983

Mr. Chairman, I am Stephen I. Martin, a Vice President of the Hartford Fire Insurance Company. I am accompanied here today by Mr. Joseph H. Gareau, an Assistant Vice President in our Investment Department, and Mr. William C. Foster of Patton, Boggs and Blow, Washington, D.C. We are appearing before you today on behalf of my company, as well as the Crum and Forster Insurance Companies and the Continental Insurance Companies. We are part of a larger group of interested bondholders that as of September 1, 1983, consists of 23 companies owning approximately three-quarters of a billion dollars in WPPSS Projects 1, 2 and 3 bonds. Included in this group are insurance companies, bank trust departments and investment companies that represent a substantial number of individual bondholders. We believe that the views and concerns we will present to you are also representative of the views and concerns of these and many other WPPSS Project 1, 2 and 3 bondholders.

We very much appreciate this opportunity to appear before you today and will be pleased to respond to questions either during or at the conclusion of our statement.

We are cognizant of the many difficulties which have developed for the Washington Public Power Supply System. We are also aware that government and citizen leaders in the Pacific Northwest are committed to seeking reasonable solutions to these difficulties, consistent with the best interests of ratepayers, business and industry included, in meeting the future power and public financing needs of this magnificent area. We have followed with great interest, Mr. Chairman, your own well articulated efforts in the United States Senate to make possible additional private financing to permit the completion of WPPSS Project #3, and we know of the other legislation affecting the Supply System which has been introduced in the Congress of the United States.

We are not here, however, to comment yet on possible legislative solutions to the problems of the Supply System. To do so would be not only premature, but also presumptuous, because we know that Governor John Spellman of Washington and Governor Victor Atiyeh of Oregon have appointed a blue ribbon study commission (the Governors' WPPSS Advisory Panel) to recommend solutions to the Supply System's problems, solutions which we expect will have to include legislation of some sort. That Panel's Report should be published, we understand, within the next few weeks. It is then when we would expect to participate with regard to those aspects of the Panel's recommendations which are relevant to our interests, and our interests may well coalesce with them on solutions which may be broader-based than our immediate needs would otherwise dictate.

Why then are we here now? Because so far public attention has very largely been focussed on the situation with regard to Project 4 and 5 bondholders whose bonds are now in default, and insofar as visible Congressional movement is concerned (that generated by you, Mr. Chairman), attention has been focussed only on providing a means for facilitating the financing of the completion of Project 3.

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Project 1, 2 and 3 bondholders are now in jeopardy of losing the benefit of their unequivocal and supposedly air-tight guarantees. The danger is two-fold. If the Supply System were to file for voluntary bankruptcy, other creditors (including Project 4 and 5 bondholders) would, we fear, lay claim to the obligations of BPA to the Supply System with regard to the Project 1, 2 and 3 bonds on the alleged ground that their obligations become part of the Supply System's general assets for distribution to general creditors, thus giving Project 4 and 5 bondholders the benefit of a bargain they never made, the benefit of the BPA guarantee which was clearly intended only for Project 1, 2 and 3 bondholders. Project 1, 2 and 3 bondholders would counterclaim that their bonds are "secured bonds" and that the security, the BPA guarantee, is not part of the general assets of the Supply System.

Wherever else this may lead, the Supply System and its bondholders and creditors will be facing even more protracted and expensive litigation than the System now faces. If interest payments due the Project 1, 2 and 3 bondholders are not forthcoming promptly, their bonds too will be in default. In fact, pursuant to the bond resolutions authorizing issuance of Project 1, 2 and 3 bonds, a filing by the Supply System of a petition in bankruptcy is an event of default under each resolution. Thus, even if interest payments are current, a technical default would exist in the event of a filing for bankruptcy by the Supply System.

But Project 1, 2 and 3 bondholders face still another grave danger to the supposed integrity of the BPA guarantee. The latter is effectuated through its net billing agreements with the Supply System and with the public utilities participating with the System in Projects 1, 2 and 3. The validity of these net billing agreements is under attack in the courts. If they are invalidated, the BPA guarantees would be vitiated because BPA is not currently authorized to make payments directly to the trustees of the Project 1, 2 and 3 bonds, nor is BPA currently authorized to contract directly with the Supply System for the purchase of power. Failure of the Supply System (or BPA) to make the necessary interest payments would also put those bonds in default.

A default on over $6 billion of 1, 2 and 3 bonds, bonds whose principal and interest were understood by all concerned to have been secured by BPA revenues, will deal the credit worthiness of public power and even municipal financing in general, and public financing in the Pacific Northwest in particular, a tragic blow.

If BPA were authorized to honor the obligations of its guarantees directly to the trustees of the Project 1, 2 and 3 bondholders that authorization itself would not cost rate-payers one penny more than they are now obligated to pay, but it could save them millions of dollars in the future by preserving investor confidence in the integrity of intended guarantees and making unnecessary sharp increases in the cost of future public financing. Also, by alleviating these concerns, the likely reinstatement of ratings by Moody's and Standard & Poors would rejuvenate the secondary market for outstanding bonds and provide an active new issue market for additional bonds to complete Project 3.

Whatever else may be identified as critical among the Supply System's problems, in our opinion restoring investor confidence looms largest.

Whatever policy decisions may be made with regard to completing Project 3, which is 75% completed, if completion makes sense in terms of meeting future power needs (and this we are not competent to judge) then the cost of financing, given today's problems and conditions, should include a role for BPA guarantees, but on a direct to Bond Trustee basis. This would help minimize the long-term impact on rate-payers. Similarly it makes good practical economical sense to assure that any new issue for this limited purpose, like the earlier bonds, be tax exempt.

## Summary

We submit that restoration of investor-confidence in public power financing in the Pacific Northwest should be an overall objective in addressing the problems of the Supply System.

Accommodating the needs of Project 1, 2 and 3 bondholders in order to assure them of the BPA guarantees they relied on in good faith is an essential part of this process.

If completion of Project 3 is determined to be necessary, we would hope that provision be made for the most efficient, least costly basis for financing, such as the issuance of new tax exempt bonds with interest and principal guaranteed through BPA revenues with payments made directly to the Bond Trustee.

This was a most timely invitation for us to express our views and concerns, and we would welcome any further opportunity to participate in the process of addressing the problems of the Supply System.

Respectively submitted,

Stephen I. Martin

The **Chairman**. Gentlemen, I only have a couple of questions. There is an assumption that has been articulated to some degree, but not necessarily directly, and that is whether or not it would be possible for WPPSS to go to the market today to finance the completion of 1, 2, and 3 even with the net-billing arrangement; would that be possible in the judgment of any of you in the current conditions?

Mr. **Meyer**. For WPPSS to go to the marketplace, no.

The **Chairman**. It wouldn't be possible in your judgment; is there any disagreement among any member of the panel with that statement?

Mr. **Graham**. No, we would not—WPPSS would not be able to go to the market today.

The **Chairman**. The second question derives from that; there is the assumption of the parties, many of whom are looking at the situation today, that even with the enactment of legislation, such as S. 1701, that any financial arrangements being made would buy a substantially higher interest rate in the market today because of the difficulties with respect to the default on bonds issued by WPPSS 4 and 5. If S. 1701 were passed or legislation to that effect and the entities were constructed and if the contracts were constructed in such a way, would it be your judgment that there would be a penalty rate or risk rate in the marketplace because of the associated difficulties with WPPSS with respect to 4 and 5?

Mr. **Meyer**. The ultimate rate on any financing is going to depend on the total credit protection that that particular bond had. It's very difficult to answer, Senator McClure, because I note 1701 by itself does not give everything that is necessary in terms of a credit analysis to go forward. But, it should be possible to fashion a bond which could sell in line with the marketplace for bonds, similar kinds of bonds, at the time.

The **Chairman**. Then it is your opinion, Mr. Meyer, it is not necessary that there would be under every circumstance a so-called penalty rate?

Mr. **Meyer**. There need not be. As a matter of fact, all efforts should be met to eliminate not only that kind of a penalty rate situation, but to eliminate the overall penalty rate situation that now affects the entire marketplace.

Mr. **Graham**. Basically, in the bank lending market you do not really lend and attach a penalty rate becasue rates very seldom compensate for risk. We don't tend to operate that way anymore so if the credit has been established and ascertained and accepted by the consortium of banks who are lending them, and they view it as a good credit despite the so-called contamination from WPPSS, the rate would be reasonably within market perimeters for similar credits. We view this effort of ours as to try and develop a credit, a borrower, that would ahve most of the hallmark of the BPA type of credit.

Now, whether we can do that or not is debatable, but that's certainly an objective and if we can reach that criteria in the borrowing and underlying support mechanism, then I don't see that this is going to have a punitive type of rate effect.

Mr. **Martin**. Senator, I would not care to comment with regard to the effect of the issue of bonds or other financing with regard to project No. 3, but one must ask oneself, "has the air been cleared with respect to public financing in the State of Washington through this measure?" Our view would be that it has not because obviously, going to the Congress for all kinds of guarantees, that should not be necessary. It is not the way to go. It seems to a longer range resolution of the problems with public financing should be reached by the Congress.

Thank you.

The CHAIRMAN. Thank you very much, gentlemen. We will reconvene at 1:30.

[The lunch recess was taken.]

### AFTERNOON SESSION

The CHAIRMAN. The meeting will come to order.

Panel No. 4, Robert Greening, manager, Public Power Council, Jim Boldt, executive director, Washington Public Utility District Association and Matt Dillon.

Mr. GREENING. Mr. Chairman, with your permission we're going to change the order and Matt Dillon will go first and Harold Beckemeier second.

Mr. BOLDT. Mr. Chairman, we would like to introduce Matt Dillon, PUD commissioner from Snohomish County, Everett is a good location for him. Next to him is Mr. Harold Beckemeier, Grant County PUD, one of the mid-Columbias in eastern Washington.

The CHAIRMAN. Mr. Dillon.

## STATEMENT OF MATT DILLON, PUD COMMISSIONER, SNOHOMISH COUNTY

Mr. DILLON. Thank you for the opportunity to testify here today. My name is Matt Dillon. I'm a PUD commissioner from Snohomish County, the largest public utility district in the State. I was elected to public office less than a year ago on a reform platform. I am a ratepayer advocate.

I'm here in opposition to S. 1701. The ratepayer and owners of my utility do not need this kind of intervention in their affairs. The bill will significantly add to our debt burden, which is bad enough already. Please don't make it any worse.

The political process in the Northwest still works. Our system of Government is responsive to our needs and sensitive to public concerns. Our institutions are durable. They have served us well in the past and just because the experts blundered badly, it's wrong to assume that the public's wisdom and ingenuity have been exhausted. Although, on this issue, the people have been poorly served, they still have the capacity, the resources, and the intelligence to cope with the problems plaguing the supply system. The people of this State are made out of better stuff than their critics give them credit for.

S. 1701 will divert more money to WPPSS and increase the outflow of wealth from the region. It will deprive us of capital that would otherwise be available to improve the efficiency with which we consume and generate electricity. Capital that will be needed to keep our business and industry competitive. Capital that our ratepayer and owners would prefer to invest in more productive and necessary activities. S. 1701 will institutionalize an already unfortunate situation. It will frustrate public efforts to impose a measure of fiscal restraint on a bureaucracy that has grown accustomed to operating on blank checks. It will skew the notion of free enterprise and risk taking. It will reward bad judgment and impede the badly needed cleansing action of the marketplace.

Two years ago, when it became apparent that their energy affairs were being incompetently managed, the people of this State proposed, and then adopted into law, initiative 394—in the State of Washington an initiative is a legislative act created directly by the people. Although opponents of initiative 394 outspent us by nearly 11 to 1, the public prevailed and the initiative was overwhelmingly approved in the 1981 general election. The issue wasn't antigrowth. It was fiscal responsibility. It was a demand for prudence. Initiative 394 was not antinuclear. The issue was cost, not nuclear power. It wouldn't have made any difference if the electricity was to have come from tightly wound rubber bands. The supply system was out of control and the electorate moved decisively to cap the debt. They put an end to the massive appropriation of public moneys, without public approval, for projects which have no relationship to public needs or the economic well being of the region.

In the most recent election, last November, the public responded to WPPSS by selecting ratepayer candidates in a majority of the contested public utility races. The message was clear—stop adding to the debt. The problem with the supply system is the enormous debt and the burden it is placing on our people. By increasing the debt, S. 1701 will aggravate our problems, not solve them.

The transfer of wealth is staggering. Ten years ago, the Snohomish County Public Utility District spent $10 million on the purchase of electricity. As the WPPSS debt began to work its way into the rate base, the cost of electricity rose at a rate that would make an OPEC oil minister blush. Two years ago, we spent $45 million for power. Last year we spent $65 million. This year we expect to spend $98 million to purchase less electricity than we consumed 3 years ago. And next year, 1984, we will have to pay $132 million just for debt service alone, on WPPSS units 1, 2, and 3. From these depressing numbers, it should be easy to see why. Just last year, a thousand people demonstrated in the streets of Everett against the growing debt.

S. 1701 is not only untimely and unwelcome, it's unworkable. The problems facing the supply system is not legendary mismanagement, or unrealistic expectations for an immature technology, or even the possibility of scandal—it's economics. The problem is economics. There is no profitable use for the energy. It is hoped that the cheapest of the three remaining plants—WNP No. 2—will produce 52 mills electricity. BPA hopes to sell it for 30 mills in the State of California. And, because of the growing glut of electricity flooding the market, 5 mill hydropower will have to be spilled to make room in the marketplace for nuclear power that will cost 52 mills to generate.

Don't compel us to invest more money in a dated technology that has fallen painfully short of our expectations. Recovery is going to be expensive enough as it is; don't add to our burden. Trying to stay the invisible hand of Adam Smith with an act of Congress will prolong our agonies, and, at the risk of sounding disrespectful, it will ultimately fail. BPA is already having trouble passing on the cost of WPPSS and presently balances its book by withholding payments to the Federal Treasury.

S. 1701 will require rate increases that could destroy my utility. Like BPA, we are also struggling to adjust our rate structure to recover enough money to cover our expenses and avoid the death spiral that more and more ecomomists are warning us about. Although I'm optimistic that my utility is not over the edge, our situation is precarious enough without federally mandated rate increases. Conservation, new technology, and competition from other fuels are severely cutting our revenues. Boeing and Weyerhaeuser, two of our largest customers, switch their combination boilers from electricity to fossil fuels as soon as the spill rate is withdrawn.

None of our industrial customers are interested in uncompetitive energy. Nor should they be. Oil and gas companies can already supply energy for a variety of industrial uses cheaper than electrical utilities can afford to generate it in thermal plants. If the price of electricity cannot be stabilized, the bulk of our residential load will be vulnerable to competition. Fuel switching, better technology, and commonsense are going to ravage the sales of electricity for years to come.

New technology has not been kind to the builders of large, centralized powerplants. The hoped for economy of scale has simply not worked out. And as the price of electricity increased, consumption dropped. People switched to less costly forms of energy and more efficient ways to utilitize it. Like most Americans, the ratepayer and owners of my utility are thrifty and ingenious. They have little patience for uneconomic ideas and it's inconceivable that they will abandon their resourcefulness out of a sentimental attachment for a disappointing technology.

The assumption that consumers would be indifferent to the cost of electricity was clearly wrong. Energy budgets do respond to market factors. Our experience in the Northwest hasn't been significantly different from the rest of the Nation. In a few short years, the average residential consumption, in my utility, had dropped from nearly 22,500 kilowatt hours annually to 19,000 kilowatt hours. Although we serve one of the fastest growing areas in the State, and our customer base has steadily increased, our total sales of electricity have declined for 3 consecutive years.

Savings by our industrial customers has been even more dramatic. Between the years 1972 and 1981, the Boeing Co., one of the regions largest employers, increased airplane production by a phenomenal 108 percent. Employment rose 66 percent. The company's physical plant increased to size by 51 percent, and, the firm's consumption of energy dropped! It dropped 8 percent. Production doubled. Employment jumped. The size and number of plants expanded. But, energy consumption dropped.

Conservation and better technology are realities. They are not going to go away with the recession. Regardless of the strength or duration of the economic recovery, corporate managers, like their residential counterparts are not going to return to uneconomical or inefficient consumption habits. The changes are structural and irreversible. Industry is not going to scrap its investment in modern plants and equipment anymore than homeowners are going to rip out insulation or throw rocks through thermal-pane windows in order to boost consumption to prerecession levels.

If the U.S. Senate wants to intervene, help us preserve the construction licenses. Give us some regulatory relief. Allow WPPSS to maintain construction licenses for the three remaining plants without having to spend more on construction. A legislated grace period for the licenses would be an ideal compromise. It would buy time for the supply system's supporters. Time which can be used to look for an economic use for the plants. While, on the other hand, Northwest ratepayers would be spared the expense of having to plow still more money into the supply system. If a viable market can be found for the output of the plants, their future will be assured and no further intervention will be necessary. If a market cannot be found, no further action is justified.

In conclusion, S. 1701 is hostile to the best interest of the region. The bill would put our ratepayers up as collateral for a proposition that has no commercial merit. It will increase the cost of electricity, add to our already staggering debt, and push Northwest utilities closer to the death spiral and economic collapse. It will make a bad situation worse. Please, don't legislate a new source of money for WPPSS. Don't mortgage anymore of our ratepayers' future. Don't compel us to put more money into something that has no relationship to our future welfare and which is so unattractive that it repeals prudent investors. Don't dissipate our capital on something that no longer makes economic sense. Don't add to our burden. Let us allocate our resources on productive and profitable activities.

Thank you.

The CHAIRMAN. Ladies and gentlemen, I asked this morning and repeat the request this afternoon—the applause merely delays, it does not add to the record. It is not persuasive to the panel. It will not reflect in the record read by the other members of the committee when the record is studied by them and the staff in Washington.

Mr. Beckemeier.

### STATEMENT OF HAROLD BECKEMEIR, PUD COMMISSIONER, GRANT COUNTY

Mr. BECKEMEIR. Chairman McClure, Senator Gorton, ladies and gentlemen, my name is Harold Beckemeier and I am a commissioner of Grant County Public Utility District No. 2 headquartered in Ephrata, Wash. I am here today to testify on behalf of Grant County PUD, Douglas County PUD and Chelan County PUD, commonly referred to as the mid-Columbia PUD's. Together, we serve over 60,000 retail customers in central Washington. Additionally we wholesale a substantial majority of the generation from our five major hydroelectric projects on the Columbia River to four of the regions investor-owned utilities, a major direct service industry and eight public utilities.

Our utilities are highly successful, due in no small part to the management and policy boards which have seen our area developed by pioneers whose vision of improved quality of life and continuing opportunities for our citizens was never dimmed by the negativism that infects some of our industry today. The initial cost of power from our dams was nearly twice the BPA rate but our management and boards never lost their perspective and never pandered to the pundits of perversity or the purveyors of doom and gloom. Perhaps they were visionaries but you all know the old cliche about the proof of the pudding. We continue to experience load growth (over 14 percent in my utility last year) and continue to plan for increasing loads. That planning includes consideration of our present effort in conservation as well as completion of low-head hydro projects now underway or being planned. But, not all of our anticipated load growth can be accommodated by these resources. We need new major resources to meet our projected loads after the end of this decade and therefore, support completion of WNP No. 3 in a timely fashion. At the same time, we recognize the need for a comprehensive solution to the WPPSS problems including WNP 4 and 5. It would not be in our customers best interest to hold completion of WNP 3 hostage in order to achieve a satisfactory settlement of the comprehensive problem. But, an examination of some of the initial fallout from the 4 and 5 default puts the lie to the myth that the court decisions free us to go, unscathed, about our business as usual. The economic implications of utilities being excluded from capital markets is now a reality. The much talked about WPPSS penalty, although difficult to quantify, is now a reality. More important perhaps, are the securities suits filed against members of the various governing boards of WPPSS 4 and 5 participants. The results of these suits, in addition to being potentially devastating from a financial point of view, is that boards are likely to become radicalized. Successful persons will find public service on boards difficult to justify in light of the exposure of their assets. At best, the present boards will be diverting their attention from routine matters and long-range planning requirements to the more urgent need of defending against securities suits. All of these factors beg the question, "Can we afford the luxury of a partial solution?".

Our mid-Columbia utilities eagerly await the Luce Committee recommendations and expect to support them but at the same time, insist that they do not erode the concept of local control.

In closing, the mid-Columbia PUD's recommend to this committee that the WPPSS problem be examined in its broadest scope. More importantly, we urge you to view the overall problems as a symptom of the basic problems that beset the nuclear energy field nationally. If we are to ever achieve the goal of abundant, safe and efficient nuclear electrical energy we must begin to control the external factors that have now come close to ruining the industry. You may hear today from people who are part of the orchestrated assault on nuclear generations and some of their observations may be valid. It is not necessary however, to forfeit the potential benefits of nuclear energy as some of these people advocate. Rather, let us rectify the mistakes and proceed with the building of a sound energy future.

Thank you for the opportunity to testify.

The CHAIRMAN. Thank you very much.

## STATEMENT OF ROBERT GREENING, MANAGER, PUBLIC POWER COUNCIL

Mr. GREENING. I guess I'll go next. My name is Chip Greening and I am Manager of the Public Power Council. The Public Power Council represents the consumer-owned utilities of the region who are Bonneville's preference customers.

I hope that we can remember that these utilities, Bonneville preference customers, are the utilities that are being hit the hardest by the supply system plants 1, 2, and 3. Those increased costs are going to our rates through the Bonneville rates.

I want to depart from tradition a little bit this morning, this afternoon, it's already this afternoon. I forget so soon. Normally we sit here and talk a lot about the merits of the proposal and demerits of the proposal. You have heard a lot about that today, but I think one thing more than anything else is going to drive this, or any other legislation regarding WPPSS, and that's the politics of the situation. Any they are always an undercurrent in any of these hearings, but we don't talk about them specifically.

Three points I want to emphasize, first, many Legislators, utility manager, and governing boards believe that a comprehensive solution to the WPPSS problems, including plants 4 and 5, is in the best interests of the Pacific Northwest. On the other hand, these same legislators, managers, and governing boards will have a very difficult time convincing their constituents and ratepayers to support a comprehensive WPPSS solution which imposes additional costs on ratepayers. I think you have heard from many of the ratepayers groups today. You certainly can judge that for yourselves.

Third, short of a comprehensive solution, more limited Federal legislation may be the best way of protecting the region's investment in the WPPSS net-billed plants. It's certainly clear that without some sort of WPPSS solution the region's utility industry is going to be locked in complex and costly legislation for 5 to 10 years. This legislation is going to increase the utility's legal costs. It's going to prevent many utilities from even borrowing money in the municipal bond market for their own distribution systems, that is the lines they use to string between utility poles and peoples' houses. It's going to make planning our electrical future much more difficult. And it's going to threaten the region's investment in plants 1, 2, and 3.

Most important for us and for the ratepayers is the litigation resulting from WPPSS 4 and 5 default, is going to create a cloud of uncertainty of the region's economy which is going to impede any economic recovery. We now have, appointed by Governor Spellman, Atiyeh of Oregon, the Luce Panel which you have heard about. Hopefully, the Luce Panel is going to come up with a solution which may gain wide acceptance. We feel confident, based on their charge, that this solution may include a solution for WPPSS 4 and 5 and I suggest that it would, this panel would do well, meaning this Senate Energy Committee would do well in reviewing any WPPSS legislation to consider the Luce Panel's recommendations. Those recommendations may contain some formula for putting the entire mess behind us. That fact is until we get this mess behind us we are going to be in a difficult situation borrowing money for our distribution systems and conservation, as we have heard, planning our electrical future.

Well, those are the positive aspects of a comprehensive solution, but let's face political reality. Our ratepayers are our constituents. It's clear to us that the ratepayers so far are pleased with the court's decision relieving the WPPSS 4 and 5 obligation from the utilities. So if a comprehensive solution is to succeed, it must be proven to these ratepayers that the solution cost is less than the cost of the continuing court battles. The Luce Panel's report may provide that proof.

There is one other political factor I believe is very important. That's the death of Senator Henry Jackson. He was a long-time supporter of the Luce Panel. In fact, I think the chairman of the panel, Charles Luce, went on the panel at his request. The political equation is different and we can only wait and judge the reaction to the Luce Panel's report to determine whether or not the comprehensive proposal is politically feasible.

Let's assume for a moment it is not, we can't get a comprehensive solution to include 4 and 5. Perhaps the regions' utilities may then be able to support a more limited solution to save the investment in the net-billed plants. I think it's important to step back and remember the risks we have as Bonneville's preference customers in these plants. Bonneville only has two firm power customers, consumer-owned utilities, and direct service industries. The region's investor-owned utilities buy only a token amount of firm power from Bonneville.

The WPPSS net-billed plants are Federal base system resources and the priority firm rates under which we buy our power from Bonneville includes the cost of all of the WPPSS' net-billed plants whether they are ever built or not. That means the costs that are sunk in them today are in our rates to stay.

Well, as preference customers with an obligation to pay off costs of these plants, before we move ahead supporting any legislation, any proposal, I think we should make sure we can establish the most cost-effective construction path for plant No. 3. And I think we are on the way to determining what that path is. Early you may recall that Council Member Hemmingway mentioned that in their cost-effective analysis, and probably in Bonneville, will be a range of options, some of which will be cost effective and some not. I hope we will look very carefully at Bonneville's analysis and at the regional council's analysis.

Bonneville's analysis, and I assume the council's analysis, will also include a discussion of the various financing and construction scenarios available and potential for marketing some of the power temporarily out of the region, if that appears to be the best course. For now, PPC and other interested groups await the Luce Commission, BPA and Regional Power Council reports. The ratepayer and general public response to those reports will be a good litmus test for the political feasibility of Senate bill 1701, or any other Federal legislation.

With that I thank you for the opportunity to testify. We are as anxious as you to solve these problems that are, quite frankly, stifling our industry.

## STATEMENT OF JIM BOLDT, EXECUTIVE DIRECTOR, WASHINGTON PUBLIC UTILITY DISTRICTS' ASSOCIATION

Mr. BOLDT. Mr. Chairman, my name is Jim Boldt, I am director of the Washington State PUD's Association. I think Mr. Greening and Mr. Beckemeier and Mr. Dillon have quite adequately expressed the views that I hear among our members. I think that to take up further time from people who do not have the resources that we do to travel to D.C. is not fair. I sincerely respect your committee's efforts to come out here, particularly in these trying times for us, and I would like to please you with about 30 seconds of summary and move on for a close.

The only thing I can really add is as I talked to the people involved in public power, they are not ready to wholeheartedly support this bill yet. They have received some of the information they need, more is coming. They want to see what is going to happen in the court, learn more about it, and compare it to a possible legislative solution; a legislative solution should be comprehensive; as Mr. Greening says. The only thing I would like to add there is I woul like to share some rumors with you. I think Chip was very general in his comment about what Luce or the Governor's panel might come out with.

I have some rumors; I think we are going to see a discussion about this future the WPPSS, Public Power System has, and how it should exist and operate in the future. Your bill even addresses that with some new entities; I think you may see a new entity. I think you may see an attempt to try and consolidate and assist the ratepayers of this region in their battle with probably 5 to 10 years of litigation, somehow. There are no details, they have not written a report, and we don't know what it is. Regionalization is being discussed in this region, again. It has no form, and we don't even know if it's a surcharge or if it's on transmission or whether it's only the participants in the projects or for what projects. I think that these are the four or five reoccurring ideas that the panel is considering. You will have to deal with them; we will have to deal with them. We look forward to dealing with you and them.

Please remember that the people behind us, today, as you have heard, and throughout the State, really enjoy owning and operating their own locally held public utilities systems, and we need to respect that. In the interest of brevity, and more time for those in Seattle and in the area, I would like to close there with one comment. Mr. Dillon and Mr. Beckemeier, I think it's important for the committee and the record that we know if you are speaking for your utilities or others or yourselves, or how should we categorize it.

[The prepared statement of Mr. Boldt follows:]

# TESTIMONY BEFORE THE UNITED STATES
# SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES

SENATOR JAMES McCLURE, CHAIRMAN

SEPTEMBER 9, 1983

SEATTLE, WASHINGTON

Good morning Mr. Chairman, Ladies and Gentlemen:

My name is Jim Boldt. I am the Executive Director of the Washington Public Utility Districts' Association. Our Association represents 26 public utility districts in the State of Washington and their owner/ratepayers, as well as two joint operating agencies. The Association collectively represents over 500,000 electrical customers and systems that serve over 50% of the geographical area of the State of Washington.

I want to thank you for bringing this issue and your committee to the Pacific Northwest and specifically Seattle and the great State of Washington. It is more important that the local citizens and ratepayers have an opportunity to share their thoughts with you than I or the PUD Association. For this reason we will be brief. You will hear today from individuals including locally elected PUD Commissioners on the issue of the Washington Public Power Supply System, the region's energy problems and S. 1701.

The Washington PUD Association has not revised its original position of concern about S. 1701. A majority of our members believe the net-billed projects should be completed in a timely cost-effective mode. Our original questions have been partially answered and we anticipate more information with regard to pending issues soon. This information will allow us to more carefully reassess our position on the legislation but I must express that it is unlikely that the answers to the questions raised in our August 3rd testimony will displace our concern that this region may have but one opportunity to address Congress on Northwest energy problems. We should not use that opportunity to solve only a part of that problem if a more comprehensive solution is acceptable to affected parties and in the best interest of the ratepayers and the general public.

We have made clear our concern of fixing only part of the Northwest's energy problem which is addressed in S. 1701. We have for some time (including our efforts with the Washington PUD Association's 4/5 Resolution Project) attempted to address the true and broader question regarding the negative impacts of WNP 4 and 5 on any rational and fiscally sound opportunity to meet our regional power goals.

We would like to take this brief opportunity today to share with you what we feel are the "lead rumors" with regard to the Governor's Panel work chaired by Mr. Chuck Luce. Although the Association has not had a formal audience with Mr. Luce, many people in the Northwest are discussing potential comprehensive solutions to our situation. We would like to share with you some general concepts which Mr. Luce and this region could consider as the basis for a more comprehensive approach to our problem.

There is reoccurring discussion about the need for a restructuring of the Supply System, the importance of financing the net-billed projects and other resources called for in the Regional Power Plan, a requirement that the endless litigation around and about Projects 4 and 5 cease and that rational cost-effective energy planning be allowed to proceed. Although not specifically oriented towards the WPPSS project situation, we have also heard much concern about the licensing problem with the Federal Energy Regulatory Commission for new low head and small hydro. Many of our members feel that the intent and spirit of the exchange provisions of the Regional Power Act are not becoming a reality.

We have just begun to sort out the litigation which is now being consolidated in Judge Bilby's court. It is unclear to many whether a comprehensive legislative solution is in fact preferable to a comprehensive judicial decision, if such a process is a reality.

There are some points that we would like to make today about the previously mentioned embryos of a comprehensive solution. We then ask you and others to keep these points in mind as the panel formulates what will be its recommendations to the Governor, and your possible role in implementing any of these recommendations.

If there are new entities to be formed they must respect the right of local ratepayers to determine their destiny with regard to the systems that they own and oversee. This applies to any new entities or restructuring of the Washington Public Power Supply System as it does to any new entities responsible for financing or even completion of the Supply System projects. Any type of program that involves a settlement of lawsuits and defenses in lawsuits will have to be as comprehensive as the court action may allow.

In closing, I would like to say that for us to pretend that this week has been normal is not the case. As you know, we are all stunned and saddened by the loss of our great Senator Henry "Scoop" Jackson. We respect the efforts you and your committee have made to come to the Pacific Northwest during these trying times to address this issue. Senator Jackson always felt strongly about public involvement, public hearings and the public's opinion of issues before Congress. I sincerely believe this hearing is a tribute to that belief. In that spirit, these brief remarks conclude our testimony so that those who are unable to attend the meetings in Washington, D.C. can take this valuable time today and express their opinion.

We will watch the cost-effective analysis of the Regional Power Council, the Bonneville Power Administration and individual public and private agencies over the next few weeks, and more carefully assess S. 1701's role as part in a possible comprehensive solution to our problem. As always, Mr. Chairman, we will attempt to be a positive participant in solving our region's problem in the best interest of our ratepayers.

Thank you again for the opportunity to testify. I am looking forward to working with you, your committee and your staff when we have a final report from the Governor's Panel and a better understanding of the impact of S. 1701.

The CHAIRMAN. Mr. Beckemeier.

Mr. BECKEMEIER. I thought I cleared that up, but I'm speaking for the mid-Columbia PUD's.

Mr. DILLON. I am speaking for myself as the elected public official. However, the official position for Snohomish County PUD is to not support this legislation at this time.

The CHAIRMAN. Thank you very much. I have no questions of the members of the panel, but I have just one comment.

Senator GORTON. Mr. Dillon, I appreciate your testimony and your approach. I did understand you to say that you would like to have a way by which the license, I think you said for 1, 2, and 3, could be preserved so that decisions could be made on a rational basis in the future. I think I have two questions; does that imply that you wish the status quo of 2 to be frozen at the present time, not to go to completion?

Mr. DILLON. I am personally opposed to any increase in the debt on my ratepayers of Snohomish County. We simply afford any increase. The ratepayers—the average all-electric customer in Snohomish County has, in just a short couple of years, gone from 22,500 kilowatts per hour a year to 19,500; in a neighboring utility, the all-electric customers are down to 15,000 a year.

I know the potential is there for that reduction in Snohomish County. As the rates are driven up, conservation becomes more cost-effective. We simply can't abstract that much more revenues, so, any increase in the amount of power to the ratepayers of Snohomish County——

Senator GORTON. I'm not sure that—given the position which 2 has reached now and the way it is being completed, would you reverse that direction and close down the construction on 2 now? Do you feel from this point on to bring it on line will add to that debt?

Mr. DILLON. It does add. Thereis some debate on how much it does add. It's somewhere between 7 and 17 mills. I like the approach of the regional power council that says that we get resources ready and put them on the shelf, and when we can identify the market for the power, we pull them off the shelf and put them into the program. I wish we could do that with No. 2.

Senator GORTON. A followup question is connection with 1 and 3—I take it from your testimony you are asking that we find a way to preserve the licenses for those two plants, that you can't conceive of some circumstances in the future pursuant to when they would be complete?

Mr. DILLON. I think it is a widely held opinion in the Pacific Northwest that there will be a use for those plants in the Pacific Northwest. I am opposed to starting up our machines and letting somebody else wear them out and not pay us for our investment.

Senator GORTON. You don't want them completed until we need the power?

Mr. DILLON. I think we may someday need the power here, and I think they should be available for us when we need them.

Senator GORTON. Thank you.

The CHAIRMAN. Just a couple of comments. I understand from the response to your question that one of the points, which I was going to raise, was whether there would be a debt by completion of unit No. 2 as well as unit No. 3. The debt service requirement for bonds issued on No. 2, I think by the record, is $233 million a year now, and those bills will be paid by the ratepayers whether or not any power is generated.

So, the additional debt service for No. 2 is $150 million, if it were financed to completion, together with the increased cost for operation and maintenance, that would be the net additional increment of the expense. The offset by the sale of power, and I judge from what you say, Mr. Dillon, that it is your opinion that the sale of power from No. 2 would inevitably be less than the increased debt service of O&M; am I correct?

Mr. DILLON. That is a very real possibility. It could be sold at spill rates. In that case, it would very barely cover the cost of O&M. My concern is that the ratepayers in Snohomish County have got a $102 million investment in plant 2 today. If we put another—I want to use $6 billion, in the coming year into No. 2, that's a substantial investment we have made. We are paying for that, and we own that, and if you are going to sell that with no return on the investment to us, then I think we should shelve that project and preserve it until the day the ratepayers in Snohomish County need it.

The CHAIRMAN. As a matter of fact, you are willing to pay the $233 million a year until that time with no recruitment by way of revenues.

Mr. DILLON. We are billed whether that thing is finished or not. If you finish it and operate it, the cost increases, but there will be spill costs and so forth. What I am saying is someday we are going to need that power; that is the view held by the majority.

The CHAIRMAN. I don't disagree with that assessment that someday you will need that power, but my question is whether you are willing to pay—consciously making a decision to pay on an annual basis between now and then, your share of the $233 million of debt service, the bonds already sold for which you get no return in the sale of power.

Mr. DILLON. Those costs are currently being paid.

The CHAIRMAN. And you are willing to continue to pay them in order to have the project on the shelf awaiting the time when you are ready to use it?

Mr. DILLON. My response to the question will be that I will always pay the lawful obligations of my utilities.

The CHAIRMAN. But there is a choice to be made, as it seems to me, a choice as to whether you continue to pay, to keep paying the carrying charges, to keep it on the shelf for future use, or whether or not you wish to complete it and sell power to help you pay in the meantime.

Mr. DILLON. If somebody shows me a contract that would result in a benefit to the ratepayers in Snohomish County, then my argument changes.

The CHAIRMAN. All right. If, indeed, it could be completed, and the revenues to be generated from the sales of power from that plant would exceed O&M and the additional debt necessary to complete, then you might change your mind?

Mr. DILLON. I would certainly have to feel that if there was some legitimate gain for the ratepayers that had invested $102 million.

The CHAIRMAN. I understand that.

Mr. BOLDT. Senator McClure, lest some of the audience go away with a mistaken impression, we ought to make clear that neither Bonneville nor the supply system is issuing any additional debt for the completion of No. 3. In fact, the additional expense you discussed—I'm sorry, for the completion of No. 2. The additional debt you discussed is already included in Bonneville's current rate proposal, and it will come directly out of the rates; it will not increase the debt load because as one of the investment bankers stated earlier, the supply system can't borrow any money.

The CHAIRMAN. I understand that although there are those—and I think it's well to make that clear for the record and for those that are listening—there are those, however, that are seeking to have Bonneville stop paying that construction cost out of the current revenues and thus reduce rates or to alternatively borrow the money for the completion rather than doing it out of the current revenues.

I guess like everything else in this whole scene, it's impossible to make a categorical statement without being subject to some exceptions or challenges. I also should indicate, again for the record, that the northwest power planning council is, by letter of July 20, to be chairman of the committee and is on record as favoring this completion of 2 and 4. They did not, by their letter, endorse the legislation but said they would submit additional comments and I look forward to that addition to the record when it comes.

Any further questions, Senator?

Senator GORTON. No.

The CHAIRMAN. Panel No. 6, Mr. Rosier, president for the Fair Use of Snohomish Energy, Lou Berkley, chapter representative, Fair Use of Snohomish Energy, Gary Lintz, past president of that organization, and Donnie Sansom, chapter representative, and Louise Saluteen, also from that organization. I am informed, too, that Margaret Gardner, who is listed on panel 10 with the NRDC, wishes to appear with this panel.

Ms. GARDNER. I have to catch a plane.

The CHAIRMAN. What time is your plane; do you need to go first?

Ms. GARDNER. No, I don't. I just figured it would be pretty late.

## STATEMENT OF GORDON ROSIER, PRESIDENT, FAIR USE OF SNOHOMISH ENERGY

Mr. ROSIER. Good afternoon, Mr. Chairman, members of the Board, with your permission I would like to clarify one misunderstanding for my people, if that's OK. Recently, Senator Gorton, you were attributed to making some remark concerning the group of members in a democracy, in which I am a member, stating that those individuals were presumed to be radical antinukers. Democracy has basically two objectives: (1) fiscal conservatives regarding the budget; (2) the intent upon bringing the public back the public power. The concept of nuclear kinds of things is not an objective or a concern here for the present time.

Senator GORTON. Thank you very much. I have never made any comments, so I'm sorry to hear it.

Mr. ROSIER. WPPSS has created an intolerable dilemma for the ratepayers in the Northwest and in particular, the ratepayers in

Snohomish County, and any attempt to perpetuate the dilemma can only be read as continuing an irresponsible act on the part of any Senator, blue ribbon panel, or private utility to further indebt the ratepayer.

Our elected commissioners in Snohomish County have clearly said no to this bailout bill and correctly recognize the bill has excluded the participants, thereby eliminating any control of the proposed entity by ratepayers.

The entity can best be described as the "son of WPPSS", the "daughter of WPPSS" or whatever you want to call it. The entity cannot exist for the following reasons:

First, the power is simply not needed. If you are not aware, I'm sure you are now, what's happening in this region, we do have an excess of electrical energy. BPA has released their new forecast—it is 900 megawatts lower than the previous forecast. In other words, it appears we will not need plants 1, 2, and 3 until somewhere into the 21st century, if at all.

Second, the entity is not the cheapest alternative. You have not included conservation as a resource or a total of 500 megawatts of conservation energy. You are ducking, excluding, and ignoring the most important ingredient the Northwest has to offer, the Regional Power Act. The entity and the act cannot function simultaneously under the proposed McClure bill and I am not recommending any amendments to your bill. You are attempting to do, again, to the ratepayers what the bond market has done to the bondholder. Let's wait and see if we need the power before any attempt is made to bailout and create the "son of WPPSS." No further attempts should be made at railroading and eliminating the public process.

Third, you are continuing to further reduce disposable income. There are 150,000 residential ratepayers in Snohomish County. $136,000-plus million will leave Snohomish County during the next 12 months under the net-billing agreements. If you continue to perpetuate your philosophy and bills at the present time, $130 million of additional revenue will leave Snohomish County on your proposal. We have a 15-percent involvement in WNP No. 2 and a 20-percent involvement in No. 3. With this bill, you are implying many more millions will depart Snohomish County.

Fourth, the bill excludes the public utilities from the decisionmaking process. Is this attempt of exclusion a means to subvert the applicability of Initiative 394? It appears that any change in the method of financing the net-billed projects, not anticipated at the time of execution of the contracts, will impair the contract rights of the participant utilities. Simply put, the entity was not a party to the original contract and therefore, a vote of the people is required and new cost-effectiveness studies. You have created a monster you fail to fully understand and the extreme ramifications thereof. You must accept and expect a full legal challenge under the provisions of Initiative 394 and attempting to eliminate public power from the decisionmaking process, excludes ratepayers, and is therefore a subsidy of private power and the DSI's. This is not acceptable to the ratepayers.

Fifth, to create a new entity is to create another entity entitled "regionalization." Any attempt to ignore the ratepayer will be challenged and to ignore the relief granted to the "88" by the Washington State Supreme Court will create another challenge.

Gentlemen, the ratepayers in Snohomish County and the region cannot afford any bailout plan.

I'm extremely disappointed with your progress. Congress is not assuming a full investigation of WPPSS and the BPA, including the underwriting, bond underwriters, and the rating firms that are obviously a part of this. I would really recommend that your energies be put to investigation of the whole problem instead of perpetuating this by dumping some more money and supporting another dry hole.

Thank you very much.

The CHAIRMAN. Lou Berkley.

## STATEMENT OF LOU BERKLEY, CHAPTER REPRESENTATIVE, FAIR USE OF SNOHOMISH ENERGY

Mr. BERKLEY. If I may, before I talk, I didn't realize I was supposed to give my handout to you. Let me pass these to you if I may.

I will give you some background on myself. I'm an engineer. I have two degrees in professional license, I am an MBA, and for many years I have been progrowth and proindustry. I was with Westinghouse when they got involved in nuclear power starting after the war. Until 4 years ago, I have been totally pronuclear. I love this idea of power floatation marks too cheap to meter, and I did some simple calculations and found the lowest cost was $0.14 a kilowatt hour. Since then I have been antinuclear and my reasons are not religious but purely dollars and what the cost has done further to the economy of the Northwest.

I have passed to you the latest forecast I can get ahold of, and this is Bonneville's firm surplus or deficit and what it shows can be marked up. Incidentally, it is for the critical law water year. If we consider an average low water year over a 40-year period, you would wonder why we are building plants at all or why we just don't jump out of them. Based on this very conservative low water meter, we have a surplus if we build all of the plants, 1, 2, and 3 until 1993. If we build only two of them, we have a surplus until 1989, 6 years from now. If we build plant No. 2 only, we have a surplus until 1988, 5 years from now. Down at the bottom I have marked Peter Johnson. I believe Mr. Johnson is in the room, quoting Peter Johnson, "Floatation mark projects can be completed in roughly three years".

Gentlemen, we have a surplus of only one plant, plant No. 2, and I'm going to presume that's going to be build and finished and started up, started up when we need it, and not until we need it. We have at least 2 years of breathing time and our history of forecasting here for the last 10 years has been a disaster. Maybe we ought to revert to the old saying, "Don't cross the bridge until you come to it." If we have 2 years of breathing time, let's take advantage of it. Mr. Johnson recommended the mothballing plant No. 3, for, I believe, a period of 3 years. With apologies to Mr. Johnson, we don't believe everything Bonneville tells us. Their track record is really not that good, but we certainly have a very minimum of a

2-year breathing period and for God's sake, let's take advantage of it. Let's not cross the bridge until we come to it.

On thing I feel is certain is that if Mr. Johnson is recommending this delay, it's not because of the status of the bond market. If we needed those plants, somewhere we could find the money, if you had to go to Scott Paper, Weyerhaeuser, Boeing, et cetera and say give us, we have got to have this power, or we are going to shut down your plants. We would get the money. The reason Mr. Johnson is suggesting this 3-year mothballing is we don't need the power; it's as simply as that. I wouild like to point out something else in relation to motive. Bonneville's Power Administration is responsible for the electrical welfare of some 8 million people. The private utilities are responsible primarily to their stockholders in the Puget Sound. They have about 85,000 stockholders, about 1 percent of the 8 million people that enhabit here.

I frankly fail to understand the private utilities suing Bonneville and WPPSS to complete plant No. 3 when it will be such a tremendous burden. The cost of plant No. 3, and I figure the cost of money realistically, includes rish at 15 percent a year. The cost of completing No. 3 is $1 billion, that's $150 million a year. If you let us sit idle for 3 years, that's $450 million doing nothing, adding to the money down the drain.

If the private utilities sue for something like—this is the profit we would have if you went ahead with these plants; I could understand that, but to sue to complete plant No. 3 just so they can get a return to 16.25 percent on equity or 30 percent of the plant, that is not economical or justifiable for the region.

Thank you.

The CHAIRMAN. Thank you.

Gary Lintz.

## STATEMENT OF GARY LINTZ, PAST PRESIDENT, FAIR USE OF SNOHOMISH ENERGY

Mr. LINTZ. My name is Gary Lintz, and I am a ratepayer in Snohomish County. I am opposed to the passage of S. 1701 for the following reasons:

First, the action is premature, BPA has mothballed plant 3 for 3 years; the passage of this bill makes it more likely that construction of plant 3 will start up prior to the end of the mothballed period. Also, the Northwest Regional Council has initiated a cost-effective study of plant No. 3. The passage of this bill makes it more likely the region will complete a resource, perhaps, not needed or one that may be recommended for exclusion from the regional plan at a later time.

The second major reason I oppose the legislation is that the action removes control from the majority of the participants. The participants would have less say in the fate of plant No. 3 and ratepayers and public utilities would have none. The bill creates an entity; ratepayers would have less control than they have with WPPSS.

The third major reason, the action does not have consensus among all the Northwest congressional delegations. Congressman Weaver has identified 19 points of reason to oppose such similar legislation. To pass the legislation in light of such questions and strong opposition, ignores the credibility WPPSS critics have earned in conjunction with the WPPSS debacle.

The fourth major reason, the action requires more questions than it answers. The bill does not address the real failures of WPPSS. Given proper security, Wall Street will buy anything; their support to the bitter end of WPPSS demonstrates this. Granting sufficient security to a new entity to bolster Wall Street confidence does not guarantee the majority of ratepayers in the region a sane energy policy. The entity guarantees the completion of WPPSS 3 at any cost leaving the ratepayers no way to protect their own pocketbook.

In summary, the action is premature, reduces control for the ratepayers, and raises more questions than it answers. I recommend more prudent action to protect the majority of ratepayers within the region. First, no action on this bill until after the completion of the cost-effective studies by the Regional Council; second, no action on this bill until additional hearings are held throughout the region and circulation of the cost-effective study and, third, no action until a definitive response is given by the Attorney General's Office as to the applicability of I. 394.

Thank you.

### STATEMENT OF DONNIE SANSOM, CHAPTER REPRESENTATIVE, FAIR USE OF SNOHOMISH ENERGY

Ms. **Sansom**. My name Donnie Sansom. First of all I would like to say as far as the WPPSS mess is concerned, I think that if more women or even some women were on these boards like the WPPSS extension, PUD's, and all of these, anything to do with WPPSS, there wouldn't be this mess. I can't guarantee it, but I feel it wouldn't have been so bad.

My deep concern is for people and my own survival and that's the reason I'm here. With these constant increases in rates since 1979 and no letup in sight, electric bills have become unbearable. The people are suffering. I want you to know people are suffering. Electricity is a necessity which has become a luxury. I love my home but isn't it a shame I can't keep it comfortable anymore. I have to watch how much electricity I use for water, I have to watch what I cook. I've go to be watching all these things that we have to pay for now. We don't look at it as something you have to do, you do it when it's absolutely necessary.

As far as BPA, WPPSS, and the PUD's go, I think they have no concern for the people they serve. They have become so full of greed, I'd like to stress greed, that there is no room for concern or caring for the ratepayer. Have they forgotten the struggle for public power? These increases have got to stop. No. 3 plant has got to stop. No. 2 doesn't need to be started because we do not need the energy for 20 years. We have excess energy for the next 15 years at least. The issue is ratepayers' jobs and conservation.

I also want to prevent an $8 billion or more disaster. But unlike Mr. Meyer, for another reason. May I make a suggestion that all politicians and PUD's, WPPSS, and BPA executive people read the Constitution again and hear what they are reading?

Thank you.

The CHAIRMAN. Margaret Gardner from panel No. 10. Ms. Gardner?

## STATEMENT OF MARGIE GARDNER, RESEARCH ASSOCIATE, NATURAL RESOURCES DEFENSE COUNCIL, INC.

Ms. GARDNER. Mr. Chairman and Senator Gorton, I am Margie Gardner. I am a research associate at the Natural Resources Defense Council, where my work has focused on Northwest electric power planning. NRDC is a national, nonprofit environmental organization with a 10-year history of involvement in Northwest energy issues, which includes publications of three comprehensive studies of the region's electricity needs. I appreciate this opportunity to present NRDC's views on pending legislation addressing the Washington Public Power Supply System.

This legislation is designed to facilitate the restart of construction on the WPPSS 3. NRDC believes that the currently planned construction delay is the most reasonable for the region for at least three reasons. We urge Congress to do nothing that would mean restarting up construction on unit 3. The construction delay will defer additional pressures on BPA's stressed funding.

Second, the delay will avoid a monetary loss incurred through electricity sold below cost during surplus. Finally, delay preserves the option to terminate unit 3 if further analysis confirms our preliminary consensus that unit 3 is not a cost-effective resource for the region. BPA is in serious financial straights even if unit 3 remains in mothballs with no further money spent on it. It is not clear the region can afford increased revenue retirement should construction continue or start again. BPA raised rates 400 percent to utilities and 750 percent to direct service industries over the last 4 years. Over the same period demand declined and revenues fell short. In this fiscal year for example, BPA now expects its revenues to run $350 million short of the regional projections. Further rate increases would not necessarily raise revenues.

This issue was brought up before, earlier this morning. When rate hikes occur people use less electricity in an attempt to keep bills down. Anticipated revenues are not collected. Even under the currently planned delays BPA intends to spend large amounts of its revenue on supply system output. Cost of finishing No. 2 will run $2¼ billion of BPA revenue for fiscal years 1983 through 1985. I would like to point out that that equals more than half the total revenues collected by BPA between 1937 and 1980. Restart of construction on unit 3 today will dramatically increase the deficit and remove any profits.

My second point, continued delay of unit 3 will also avoid the costs of selling surplus power at a loss. It is important to remember that if low growth remains between medium-low and medium-high forecasts projected, the output of unit 3 will just add to the existing surplus until at least the year 1992. As a result of electricity from unit 3 will have to be exported during those years. While we support the sale of surplus power out of region, we note that only relative cheap power can be recovered at cost. WPPSS 3 is not a cheap resource. Our written testimony evaluates the costs associated with selling expensive power at a loss through the Northwest/Southwest intertie. This is basically a response to the question that Senator McClure addressed to BPA this morning.

From our preliminary analysis it's clear that the region is far better off avoiding the necessity of selling unit 3 power at a loss and incurring the costs of delay than completing the unit in a period of surplus to avoid further delayed costs. In other words, the costs incurred by delay are less than the costs incurred by selling power for that 5-year surplus period.

Finally, I would like to address the point that delay will reserve the option to terminate unit 3 if that proves to be an acceptable alternative. In its plan the Regional Council rejected all conservation methods costing more than $0.04 a kilowatt hour in 1980 dollars. WPPSS unit 3 could not meet this test even ignoring costs already expended. Detailed in our written comments, the cost to complete and operate unit 3 would exceed $0.04 a kilowatt hour and could reach or exceed $0.08 in 1980 dollars. These costs are quite conservative already since they do not include line costs or transmission costs or environmental costs.

Are there cost-effective alternatives to nuclear powerplants? A possible alternative to unit 3, I cite the 7,600 average loss, load reduction, cogeneration and conservation programs identified by the regional council in their regional plan but not incorporated in the reply to the plan. Their resources were not investigated thoroughly before the plan was published due to time constraints and the fact that their output was not necessary to meet forecasted levels. However, the council promised to investigate before the next plan is published. If even a fraction of these resources materialize as cost-effective options, the case to terminate WPPSS 3 is overwhelming. None of the arguments I have heard here today require that construction start now as the legislation tends to facilitate. We need time to assess options, options voiced here today like selling output to Pacific Rim counties or even the financial communities concerned with Washington State's credit. And we need time to better pay the costs of an alternative to WPPSS 3 and actual costs of WPPSS 3. By proceeding with the already planned delayed construction, construction delay, we can preserve the option to reach an informed decision on unit 3. We would have an opportunity to minimize regional power costs.

For all these reasons, NRCD recommends that the Congress take no action at the time to facilitate the restart of construction on unit 3.

Thank you.

[The prepared statement of Ms. Gardner follows:]

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# TESTIMONY OF MARGIE GARDNER
RESEARCH ASSOCIATE
NATURAL RESOURCES DEFENSE COUNCIL, INC.
ON THE
# FINANCING OF POWER PLANTS OWNED BY THE WASHINGTON PUBLIC POWER SUPPLY SYSTEM

Presented to the

COMMITTEE ON ENERGY AND NATURAL RESOURCES
U.S. SENATE

September 9, 1983

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Mr. Chairman and members of the Committee, my name is Margie Gardner. I am a Research Associate at the Natural Resources Defense Council, where my work has focused on Northwest electric power planning. NRDC is a national, nonprofit environmental organization with a ten-year history of involvement in Northwest energy issues, which includes publication of three comprehensive studies of the region's electricity needs. I appreciate this opportunity to present NRDC's views on pending legislation addressing the Washington Public Power Supply System.

## I. Summary and Overview

The acronym "WPPSS" has become an international distress symbol. Two of the Washington Public Power Supply System's five reactors -- Units 4 and 5 -- have become the world's costliest exercise in power plant cancellation; two more -- Units 1 and 3 -- are in what, for want of a better metaphor, is termed a "mothballed" status. Meanwhile, a regional power system that once anticipated extended electricity shortages is now trying to market long-term surpluses to neighboring states.

Over the past two months, many Congressmen and Senators have been exploring the question whether federal legislation is needed immediately to assure financing for continued construction for WPPSS Unit 3. In some quarters, this debate has taken on an air of unreality, since last July's decision to impose a construction delay is irreversible. By WPPSS's own admission, even the most precipitate efforts to reassemble the work force would cost $186 million and leave peak manpower levels unrealized until at least September 1984.* Thus, there is no way to avoid a pause in construction. The question is whether Congress should intervene now to minimize the duration of the "mothballing" period.

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*See Washington Public Power Supply System, Analysis of Cost/Schedule Impacts of WNP-3 Extended Construction Delay, at 4 (August 10, 1983).

NRDC believes that the construction delay should extend for at least three years, in line with current planning. This will defer additional pressures on the Bonneville Power Administration's (BPA) strained finances, and give the region time to address unanswered questions about whether the funds needed to complete Unit 3 could be invested more prudently in alternative resources. Trends in both availability of alternatives and load growth will become clearer over that time; during the past year alone, for example, Bonneville's forecast of Northwest electricity needs in 1990 has dropped by some 640 average megawatts.* For the reasons explained below, we believe that ratepayer interests ultimately will dictate cancellation of Unit 3. However, that decision need not and will not be made until more evidence is in. Of course, the converse should also be true: no ratepayer funds should be allocated to additional construction until regional planners are in a position to demonstrate the cost-effectiveness of Unit 3. In sum, the status quo -- under which BPA has imposed an extended construction halt -- charts a course that serves the region's best interests. No legislative solution is required for a problem that does not yet exist; and the "solutions" now pending in Congress could both narrow Northwest options and exacerbate the region's financial crisis.

Part I of this testimony presents background information on the evolution of the WPPSS crisis. Part II reviews estimates of the costs that must be incurred to build and operate Unit 3, and addresses some of the strategic considerations involved in the decision whether to finish the plant. Part III analyzes the availability of cost-effective alternatives for WPPSS Unit 3 and its "mothballed" counterpart, Unit 1. The statement concludes with recommendations for legislative and administrative action.

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*Compare Bonneville Power Administration, Forecasts of Electricity Consumption in the Pacific Northwest, at 5 (July 1982) with Bonneville Power Administration, Executive Summary: Forecasts of Electricity Consumption in the Pacific Northwest, at 4 (July 1983).

## I. The Evolution of the WPPSS Crisis

To an electric power planner, the "Pacific Northwest" is a well-defined region of some 275,000 square miles, encompassing Idaho, Oregon, Washington, and the portion of Montana that lies west of the Continental Divide. These states are bound together by an integrated supply and distribution system that, until the early 1970s, used renewable energy resources to meet virtually all the electricity needs of a population that now numbers about eight million. This enviable self-sufficiency grew out of an extended boom in dam construction on the Columbia River and its tributaries, which together contain approximately one-third of the nation's total hydroelectric potential. The federal government drew on taxpayers' credit to construct thirty of these dams, and entrusted the marketing of their power to the Bonneville Power Administration (BPA). BPA now acts as a wholesale supplier to more than 120 utility customers, and directly serves a smaller cluster of energy-intensive industries.

In the decades following its creation in 1937, Bonneville zealously pursued a congressional mandate to "market federal power so as to encourage the widest possible diversified use at the lowest possible rates consistent with sound business principles."[1] The real cost of BPA electricity dropped steadily over the agency's first three decades,[2] and demand for electricity assumed a dependable annual growth rate of 7 to 7.5 percent; regional consumption more than doubled every ten years. Despite heroic engineering efforts, the Northwest hydropower system could not indefinitely sustain exponential consumption increases of this magnitude. The problem was foreseen well in advance, and by the mid-1960s the region's utilities were gearing up to add coal-fired and nuclear power plants to their supply inventories.

The transition required solutions to significant economic and institutional problems. Bonneville lacked statutory authority to construct generating facilities, and the scale of the proposed endeavor would have overwhelmed any single Northwest utility. Moreover, new power supplies were certain to cost substantially more per unit of energy delivered than the existing system. The challenge was, and remains, a commonplace of the electric utility industry: what should be done to spread risks and recover costs associated with expensive new large-scale generating units, whose output will take years to materialize and will have to be sold at a loss?

A seemingly appropriate solution emerged in 1968. BPA's utility customers amalgamated their credit and managerial resources through joint construction ventures, while Bonneville itself assumed key coordinating and marketing roles:

> The controlling concept was the planning, construction and operation of the region's power facilities as if they were under a single ownership. The utilities would build the required thermal (nuclear or coal-fired) plants; BPA would provide the necessary peaking capacity, high-voltage transmission grid, and reserves, and would pool the available low-cost hydro and high-cost thermal power for sale at uniform rates.[3]

By 1974, this "Hydro-Thermal Power Program" encompassed 16 large-scale coal and nuclear plants, in various stages of planning or construction. Among them were Washington Public Power Supply System (WPPSS) Units 1, 2, and 3; Bonneville's credit had been pledged as security for debt issued by utilities owning 100% of Units 1 and 2 and 70% of Unit 3. At least eleven additional plants were scheduled for operation between 1983 and

1993, although sites had not yet been selected.[4] Over the longer term, utility plans were still more ambitious: in April 1974, BPA Administrator Donald Hodel predicted that "between now and the year 2000, over 50,000 MW of additional thermal peaking capacity will have to be added to the region's power resources."[5] That was the capacity equivalent of fifty average-sized nuclear power plants, which Hodel viewed as the preferred thermal power source for the region.[6] These construction goals reflected expectations that regional loads would quadruple over the next quarter century, despite increasing emphasis upon conservation.[7]

## A. The False Crisis: 1975-1980

Delays and cost-overruns plagued the Hydro-Thermal Power Program from the outset, and both problems worsened throughout the late 1970s. Only one of the Program's first ten nuclear plants had commenced operations by 1980. Four of the remaining nine plants were still at the licensing stage. The other five were under construction by WPPSS, which had seen an initial construction cost target of $4.075 billion balloon to $17.327 billion at the end of 1980.[8] Cumulative slippages in WPPSS construction schedules averaged fifty-four months per plant. The eleven proposed plants that had lacked sites when Administrator Hodel issued his predictions in 1974 still lacked sites as the decade came to an end.

These developments spurred Northwest utility and industrial leaders to issue increasingly apocalyptic bulletins about the imminence of sustained electricity rationing. Although planners repeatedly revised demand projections downward, the failure of new generating units to emerge on schedule more than made up the difference. By 1979, a new BPA Administrator was warning of "ten years of the damnedest power shortages our region has ever seen."[9] If droughts reduced hydropower production for an extended period, he foresaw a 2800 average megawatt shortage as early as 1983 or 1984, equivalent to the needs of three Seattle-sized cities. (An average megawatt is the energy produced by a megawatt of capacity operating continuously for a year.) By 1989 or 1990, curtailments supposedly would reach 4100 average megawatts -- almost one-third of total regional consumption during 1973.[10] Even under favorable rainfall conditions, "serious electricity shortages are almost certain to occur in the next decade."[11]

Throughout this period, environmental organizations challenged the forecasts underlying the Hydro-Thermal Power Program, and argued that utility planners had overlooked cost-effective alternatives to nuclear and coal-fired power plants. The Natural Resources Defense Council, the Sierra Club, and the Washington Environmental Council, among others, advocated deferring all new plant construction and reversing the decision to expand the WPPSS nuclear program from three units to five. Licensing proceedings for six other nuclear and coal-fired plants became extended struggles between their sponsors and determined local citizens' organizations.[12] Although environmental groups won several major legal and legislative victories,[13] they could not stem the flood of capital into the power plant sector. One outgrowth of their efforts, however, was a major debate over the methodologies for forecasting trends in long-term electrical energy needs.

## 1. The Forecasting Controversy

> The future fascinates the utility industry. This is because of the way we do things. Nearly every day we plan projects or discuss operations to meet needs that will occur five or ten years hence. We plan to deliver power from generating plants that are still under construction over lines still on drawing boards to suburbs and industrial plants as yet unbuilt.[14]
> (Charles F. Luce, BPA Administrator, April 3, 1964)

Until the mid-1970s, utilities forecasted Northwest electricity needs based on the straightforward assumption that the steady and high rates of growth observed throughout the post-war era would continue indefinitely. When consumption increases decelerated markedly after 1974, utilities gradually shifted their emphasis from trend-line projections to more complex "econometric forecasts," which used increasingly elaborate computer models that were inevitably characterized as "state-of-the-art." The two predictive techniques had marked similarities; both worked by identifying historic trends and extending them into the future. Econometric analyses were much richer in statistical detail than the trend lines they supplanted, but the principle was the same.

The econometric forecasts embodied "the crucial assumption that statistical correlations that may have existed in past years will continue without significant change in the future."[15] In the view of critics, these forecasts "overstate the future growth in demand for electricity because they fail to take adequately into account the potential for greatly increasing the efficiency with which we use electricity."[16] In 1977 and 1980, the Natural Resources Defense Council (NRDC) published "Alternative Scenarios" for meeting Northwest electricity needs, which concluded that efficiency improvements in electricity-consuming devices and buildings could become the dominant source of new electricity supplies for the region.[17] These projections envisaged the abandonment or deferral of approximately two-thirds of the new thermal generating capacity then under construction or at the licensing stage.[18]

### B. The Real Crisis: 1981-1983

It began with a collapse of confidence in the utilities' load growth forecasts. In 1980, for the first time, Northwest electricity consumption actually dropped.[19] Not coincidentally, BPA had just imposed the largest rate increase in the agency's history.[20] The next annual utility forecast of 1990 regional loads scored a record decline of some 2100 average megawatts, a figure equivalent to the reliable annual output of three 1250 megawatt nuclear plants.[21] Since 1974, annual estimates of 1990 loads had now dropped seven consecutive times, by a total of more than 8700 average megawatts.[22] The new Northwest Power Planning Council devoted several of its initial meetings to skeptical cross-examination of the staff involved in preparing these forecasts. There was no guarantee that the trend of reductions had run its course. So volatile an index of future markets seemed at best a questionable guide for multi-billion dollar investment decisions.

Under the circumstances, the Washington Public Power Supply System chose an inauspicious time, in May 1981, to release revised construction budgets for its five nuclear units. A net increase of thirty-eight percent brought the total bill to $23.8 billion, of which $11.8 billion represented costs attributable to Units 4 and 5, the two plants that were furthest from completion.[23] Given the new demand growth and cost projections, WPPSS management determined that it could not maintain all five construction schedules; the WPPSS directors announced a "construction slowdown" for Units 4 and 5 in June of 1981.

The events of the next two years defy concise summary. The table below shows the status, as of September 1, 1983, of the twelve coal-fired and nuclear plants that were under construction or in licensing proceedings at the beginning of 1980.

In sum, six plants had been terminated, two were in what might optimistically be termed a state of suspended animation, one was in operation, and three remained at least temporarily under construction. The entire utility system was awash in litigation; WPPSS alone had spawned more than sixty lawsuits, with more anticipated imminently. BPA confronted not deficits, but uncontrollable electricity surpluses.[24] Regional electricity consumption in 1982 was lower even than the depressed levels recorded in 1980.[25] Wholesale and retail electricity prices were climbing sharply.[26]

In addition, demand projections were still plummeting, and the utilities had finally lost their monopoly on official long-range forecasts. Washington State University and Bonneville assessments concurred that annual growth was unlikely to exceed 1.5 percent over the next two decades, a conclusion that challenged the rationale for much of the region's planned thermal capacity.[27] Even more important, the Regional Council had completed its twenty-year Northwest Conservation and Electric Power Plan, which deferred indefinitely all new coal and nuclear additions within the Council's jurisdiction.[28] Dominating the Plan's conclusions were findings that conservation could meet most of the region's probable needs for new electricity supplies.[29]

As of May 1983, Northwest utilities and their ratepayers had committed more than seven billion dollars to 10,000 megawatts of cancelled or mothballed power plants.[30] The Northwest is not alone in its plight, although the region's per capita burden of wasted expenditure is unrivalled. Between 1972 and 1982, U.S. electric utilities officially abandoned 139 nuclear and fossil-fueled plants.[31] The total bill for 100 cancelled nuclear plants is about $10 billion. Seventy-two of those reactors were terminated after 1976, and in forty-two cases sunk costs exceeded $50 million.[32] At least thirteen imminent nuclear plant cancellations are expected to add as much as $4.5 billion to these totals.[33]

In the view of the U.S. Department of Energy (DOE), that trend must be reversed. DOE favors massive infusions of ratepayer capital to resuscitate moribund projects, prevent more

| Plant | Type | Capacity | Scheduled Operation Date | Cumulative Delays | Status |
|---|---|---|---|---|---|
| Boardman | Coal | 500 MW | 7/80 | 23 months | Operating |
| Colstrip 3 | Coal | 700 MW | 1/84 | 64 months | Under Construction |
| Colstrip 4 | Coal | 700 MW | 7/85 | 70 months | Under Construction |
| WPPSS No. 2 | Nuclear | 1100 MW | 2/84 | 81 months | Under Construction |
| WPPSS No. 3 | Nuclear | 1240 MW | 12/89 | 108 months | Construction Suspended |
| WPPSS No. 1 | Nuclear | 1250 MW | 6/91 | 135 months | Construction Suspended |
| WPPSS No. 4 | Nuclear | 1250 MW | --- | --- | Terminated |
| WPPSS No. 5 | Nuclear | 1240 MW | --- | --- | Terminated |
| Pebble Springs No. 1 | Nuclear | 1260 MW | --- | --- | Terminated |
| Pebble Springs No. 2 | Nuclear | 1260 MW | --- | --- | Terminated |
| Skagit/Hanford No. 1 | Nuclear | 1288 MW | 1/91 | 114 months | Termination Imminent |
| Skagit/Hanford No. 2 | Nuclear | 1288 MW | 1/93 | 102 months | Termination Imminent |

Explanatory note: Scheduled dates of operation are taken from Pacific Northwest Utilities Conference Committee, Northwest Regional Forecast of Loads and Resources: July 1983-June 2003 (March 1983). Cumulative delays are based on operating dates scheduled at the time the plants were first announced, as reported in Pacific Northwest River Basins Commission, Review of Power Planning in the Pacific Northwest 14 (July 1980).

terminations and deferrals, and spur a new round of additions to the nation's thermal power capacity.[34] But utility officials in the Northwest have seen the futility of such strategies, and for the most part want no part of them. Bonneville in particular recognizes that its revenue-producing capabilities are already strained to the limit. Rates for the agency's utility and industrial customers surged by an astonishing 400 and 750 percent, respectively, between 1979 and 1983.[35] Further increases will be needed simply to support a scaled-down system in which only one of three BPA-financed WPPSS plants, Unit 2, remains under construction.[36] The agency has concluded that "[s]ubstantial additional upward pressure at this time could have serious adverse consequences ... BPA's only choice is to reduce financial risk and not further encumber the revenue-generating capability of the Federal System in the current circumstances."[37]

Thus, for the forseeable future, Bonneville cannot afford to expand its existing thermal power commitments. The agency's pleas of penury reflect an anticipated $350 million revenue shortfall for the current fiscal year.[38] BPA also admits to being more than $180 million in arrears on repayments to the federal Treasury for debt incurred to finance the Columbia River hydropower system.[39] The Federal Energy Regulatory Commission (FERC) has published much higher arrearage estimates, ranging from $780 million to $1.4 billion.[40] Finishing only one nuclear plant and holding two others in suspension will absorb almost $2.25 billion of Bonneville's revenues for fiscal years 1983-1985, an amount equivalent to more than half of the cumulative revenues that the agency collected between 1937 and 1980.[41] By Bonneville's own reckoning, price-induced conservation and fuel-switching may prevent further rate increases from producing additional revenue: "utility planners in the Northwest are walking a knife edge -- price elasticity -- of uncertain width."[42]

These are among the constraints that must be considered in any decision whether to restart construction on Unit 3. The next section reviews the dollar costs associated with that option.

## II. Costs to Complete and Operate WPPSS Unit 3

Confusion persists regarding the level of expenditure that would be needed to finish, operate, and decommission WPPSS Unit 3. Informed decisions are impossible without some consensus on at least the following values: (1) the costs associated with construction work that remains incomplete; (2) the cost of the money needed to finance that construction, including any risk-related penalties; (3) fuel costs over the plant's operating life; (4) operation and maintenance costs; (5) expenditures for taxes and decommissioning; (6) costs attributable to replacement of worn-out or obsolete equipment; (7) the reliable duration of the plant's operating life; and (8) the plant's "capacity factor" -- the ratio between reliable annual output (in average megawatts) and capacity (in megawatts). WPPSS itself has repeatedly changed the values it assigns to such variables, generally without published explanation. Results of any cost analysis should be, but often are not, expressed in constant dollars of a specified year.

We present below some preliminary life-cycle cost estimates for Unit 3 under assumptions characterized by varying degrees of optimism. We emphasize that data available to us and all other analysts are tentative and ephemeral; the region urgently needs more time to do a better job. We fully expect all the numbers reported below to change as more complete information becomes available, and as we and others refine the analytic techniques involved. The preliminary results are significant, however, because they indicate that WPPSS Unit 3 is likely to prove more expensive than conservation alternatives, even if unpleasant surprises cease to afflict the Supply System and costs already sunk in the plant are disregarded completely.

A. Methodological Note

Our cost estimates are expressed in terms compatible with those presented for all resource categories in the Northwest Power Planning Council's Northwest Electric Power and Conservation Plan ("the Plan"). Costs per kilowatt-hour are given in 1980 dollars, levelized over the lifetime of the plant. Actual costs in any future year would be substantially higher, as a consequence of inflation.

We begin with projections based on the latest WPPSS estimates of capital and other costs. We question the relative optimism of some of these figures, none of which have received independent scrutiny. Principal sources are an October 1982 WPPSS "Action Memorandum" and an August 1983 WPPSS submission to the Northwest Power Planning Council ("the Council").[43] We hypothetically award a 60% capacity factor to WPPSS Unit 3, although industry-wide averages argue for a figure in the range of 50-55% for a plant of this size (1240 MW).[44] We further assume a substantial reduction in costs of capital to WPPSS and its co-venturers; the tables below envision that the agency can borrow money at 13% interest when inflation is running at 6%, although bonds for Units 1, 2, and 3 are now yielding 15-16% under more moderate inflationary conditions. Even at a 13% rate, of course, WPPSS would be paying investors a substantial "risk penalty," but anything less seems unrealistic in the aftermath of the largest default in U.S. corporate history. We have performed sensitivity analyses to determine the effect of still more favorable assumptions about interest rates, and to assess the implications of construction delays that vary in duration.

We also develop a "base case" for Unit 3 costs, which we consider more plausible than the first set of projections; the base case puts greater reliance on the most recent "official" WPPSS projections. These appeared in the agency's last bond statement, published in May 1982. A bond statement must undergo far more rigorous internal and independent review than WPPSS submissions that have appeared in other contexts.[45] Base case assumptions about capacity factors and costs of capital are identical to those described above. Finally, we describe various "pessimistic cases," indicating the extent to which base case costs are subject to escalation as a result of developments that have proved all too frequent elsewhere in the nuclear power industry.

## B The Latest WPPSS Estimates

In its August 1983 submission to the Council, WPPSS identified four different "delayed construction" scenarios, under which the construction workforce would be reassembled starting in either January 1984, July 1984, or July 1985.[46] (WPPSS developed two July 1985 restart options, involving either "restart to full construction" or "restart to limited construction.") The first scenario contemplates a virtually immediate (and almost certainly impossible) decision to restart construction, with prompt acquisition of funds and a "ramping up" of the construction workforce beginning in January 1984. The table below constitutes our assessment of the fiscal implications of that scenario.

## January 1984 Restart: Optimistic Case

| | Cents per kWh (1980 $) |
|---|---|
| Capital Costs [levelized 1980 dollars; 30-year plant life; 60% capacity factor; 6% inflation; nominal costs of capital are 13% for WPPSS or any successor agency and 15% for privately owned utilities owning 30% of Unit 3*] | 2.10 |
| Fuel Costs [based on unverified WPPSS interpretation of its contract with Exxon Nuclear] | .63 |
| Operation and Maintenance [from WPPSS Action Memorandum #24, October 1982] | 1.02 |
| Taxes & Decommissioning [WPPSS Action Memorandum #24] | .07 |
| Capital Additions [WPPSS Action Memorandum #24] | .28 |
| TOTAL [exclusive of transmission costs, line losses, and environmental costs**] | 4.1 |

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*SENSITIVITY ANALYSIS: Using an 11% nominal average cost of capital for all participants reduces costs by about .5 cents per kWh.

**A complete analysis must, of course, take account of all these costs. See 16 U.S.C. § 839a(4)(B).

As Section III will demonstrate, the Northwest has numerous cost-effective resource options that should take priority over thermal power expenditures of this magnitude. Indeed, the Council's Plan used 4 cents per kilowatt-hour as the cut-off point for evaluating conservation measures; the Council would have rejected, as unacceptably expensive, a conservation program with the cost profile shown above.[47]

Delaying Unit 3's restart beyond January 1984 would impose modest additional capital costs; significantly, based on data provided by WPPSS, it appears that the impact of these costs declines as the construction delay continues. The penalty reaches about 2 1/2 tenths of a cent per kilowatt-hour for a July 1984 restart, and drops to about 1 1/2 tenths of a cent per kilowatt-hour for the longest delay that WPPSS has analyzed (about 42 months, with commercial operation in June 1990).[48]

We believe that these penalties are more than offset by countervailing benefits, even disregarding the value of preserving the option to terminate Unit 3. The benefits reflect losses avoided by bringing Unit 3 into service when the region's embedded electricity surpluses have diminished substantially. Thus, an on-line delay of only one year -- the minimum possible under current conditions -- would mean that Unit 3 would begin production during a period of surpluses that is almost certain to persist into the early 1990s. Efforts are underway, which NRDC supports, to sell that surplus to California. But it is only relatively cheap electricity that can be exported at or below production costs, and WPPSS Unit 3 does not meet that test.

Under the Council's "medium-low" and medium-high" forecasts, power from Unit 3 would be surplus to the region's needs for some 5 1/2 and 4 1/2 years, respectively, assuming that the plant began producing power in 1987.[49] In each of those years, absent some dramatic and unlikely change in the market for surplus power, Unit 3 will be returning far less to the Northwest in revenues than the allocated cost of completing and operating the plant. Avoidance of these revenue losses, by matching the plant's date of operation to regional needs, has a substantial present value that must be considered as part of the decision whether to restart construction. Our own initial calculations show "avoided losses" from delay ranging from .6-.8 cents per kilowatt-hour, depending on whether load growth tracks the Council's medium-high or medium-low forecast.[50] The lower extreme of that range far exceeds the highest WPPSS estimate of the incremental costs of delay.

In sum, even extremely optimistic assumptions about unincurred costs for Unit support an extended construction pause. More realistic projections reinforce the argument; as shown below, they strongly suggest that WPPSS Unit 3 will never be a cost-effective resource for the Pacific Northwest.

## C. The Base Case

In its last official bond statement, published in May 1982, WPPSS pegged as-yet unfinanced construction costs at $1.162 billion."[51] This total for the Supply System's 70% plant share excludes $224 million for costs already paid by Project No. 5 for services shared by the two plants;[52] allocation of these expenditures is now in litigation. WPPSS more recently has used a figure of $960 million for its 70% share of pre-delay completion costs, stripping $200 million from the last official estimate. We have yet to see any detailed explanation of why the Official Statement is now perceived to have misrepresented the facts. Pending such an accounting, it seems only prudent to use the latest verified WPPSS cost projections in a "base case" estimate of completion costs. Therefore, we added a total of $200 million to the stream of capital outlays projected by WPPSS itself for the most immediate restart scenario that we consider plausible, under which a decision to resume construction is made in July 1984. As-spent capital costs are $3.5 billion, of which about $1.3 billion represents the utilities' cost of capital during the construction periods (13% for WPPSS, 15% for the investor-owned utilities). We then converted the stream of payments to levelized 1980 dollars, using the Regional Council's uniform methodology for comparing resource costs. Fuel costs are taken directly from the last official bond statement. Other assumptions (e.g., capacity factor, plant lifetime, inflation rate, cost of capital) are identical to those used above for the more optimistic case. As a conservatism, we follow WPPSS in assuming that none of the disputed $224 million in shared costs already paid by Project No. 5 will be reallocated to Project No. 3. The results appear below.

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## July 1984 Restart: Base Case

| | Cents per kWh (1980 $) |
|---|---|
| Capital Costs [from Official Statement, May 1982] | 2.55 |
| Fuel Costs [from Official Statement, May 1982] | 1.28 |
| Operation & Maintenance [from Official Statement, May 1982] | 1.18 |
| Taxes & Decommissioning [from WPPSS Action Memorandum #24] | .07 |
| Capital Additions [from WPPSS Action Memorandum #24] | .28 |
| TOTAL [exclusive of transmission, line losses, and environmental costs*] | 5.4 |

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*A complete analysis must, of course, take account of all these costs. See 16 U.S.C. § 839a(4)(B).

## D. Pessimistic Cases

Costs to complete and operate Unit 3 could easily reach 7-8 cents per kilowatt-hour (1980 dollars) or more under plausible combinations of some or all of the following contingencies: (1) capacity factors drop into the 50% range, a figure by no means foreign to industry experience;[53] (2) WPPSS proves to have significantly understated escalation in operation and maintenance costs;[54] (3) costs of capital remain at current levels as a result of continued investor anxiety; (4) adverse court decisions transfer to Unit 3 part or all of the "shared" costs already incurred by Unit 5; and (5) lower than anticipated load growth, coupled with unfavorable surplus electricity markets, increases the losses incurred in marketing output from Unit 3 to other regions. No prudent planner can afford to disregard these risks; yet that is precisely what is implied by exclusive reliance on the WPPSS estimates that underpin both the base case and the more optimistic case sketched above.

The rationale for an extended construction delay is strengthened further by growing evidence that Unit 3 will not be needed to serve Northwest loads, and that the funds needed to complete it will find better employment elsewhere.

## III. Cost-Effective Alternatives to WPPSS Unit 3

We have explained our reasons for concluding that the costs to complete Unit 3 will exceed four cents per kilowatt-hour (1980 dollars), even if line losses, transmission costs, and environmental costs are ignored. At this very moment, residential conservation programs costing less than half as much as that minimum figure are on hold throughout the region, in response to the current surpluses.[55] Under the circumstances, to resume construction on Unit 3 is to indulge in singularly extravagant irrationality. The region should give its least expensive resources a chance to show their promise before proceeding further with a unit whose scale and operating characteristics are uniquely ill-fitted to the Northwest power system.[56]

Much confusion has resulted on this score from the Council's assumption, in the Plan, that Unit 3 would be completed on its original schedule. The Council has never "endorsed" the addition of any nuclear plant to the Northwest's resource inventory; indeed, the Council rejected all nuclear options over which it had jurisdiction.[57] The Plan's treatment of Unit 3 reflected not an assessment of its merits, but rather the Council's statutory inability to control resources financed by Bonneville prior to December 5, 1980.[58]

Of course, none of these considerations are dispositive on the question whether Unit 3 should one day be completed. If the Council's Plan contemplated development of all the Northwest's reliably available conservation, and if the Council's load growth estimates were unlikely to decline over time, then by the early to mid-1990s the region probably would have to finish Unit 3 or build other generating resources to take its place. And if the only alternatives were coal or environmentally destructive hydropower, the resurrection of Unit 3 might at that point make sense.

But this is a formidable string of preconditions. In fact, by the Council's own admission, load growth estimates may well suffer further erosion, and Bonneville's recent experience attests as much.[59] The Plan identifies up to 2360 average megawatts of possible load forecast reductions, and up to 3285 megawatts of potentially cost-effective conservation, which are not included in the Plan's "high" forecast of the region's resource needs.[60] To that list of potential replacements for Unit 3 must be added at least (1) up to 1800 average megawatts of cogeneration potential; and (2) up to 250 average megawatts of transmission and distribution efficiency improvements.[61] Under the Council's current "high" forecast, the total contribution of WPPSS Units 3 and 1. plus all new coal-fired plants, is some 4650 average megawatts in the year 2002 -- more than 3000 average megawatts less than the sum of the items just enumerated. The availability and cost-effectiveness of all these additional resources has been documented extensively elsewhere, and many parties vigorously contested the Council's failure to include them outright in the original Plan.[62] What the Council's own analysis makes clear, however, is the agency's willingness to revisit these questions prior to the publication of the first revised Plan in April of 1985.[63] By that date, the case for terminating Unit 3 may well be overwhelming; this possibility counsels eloquently against any further investment in construction at the present time.

## IV. Recommendations for Legislative Action

In July of 1983, the Senate Appropriations Committee approved an amendment to H.R. 3363, the Interior and related agencies appropriation bill. On July 28, 1983, Senator McClure introduced identical legislation as a separate bill, S. 1701. The primary aim of the proposed statute is to create a financing mechanism to restart construction on WPPSS Unit 3. Bonneville would acquire authority to make payments "to an appropriate entity or entities" to secure new debt, which in turn would provide the construction funding that WPPSS itself is unable to obtain from the credit markets.

Our grounds for opposing this measure are set out at length above; the actions that the bill is designed to facilitate are inimical to the Northwest's economic welfare. Congressional action to spur completion of Unit 3 is both premature and ill-advised.

There are, nonetheless, useful actions that Congress could take to ensure prudent decisions regarding the ultimate fate of Unit 3. In particular, Congress should direct Bonneville not to provide funding for a restart of construction prior to an independent audit of the WPPSS cost projections and a comprehensive review of the cost-effectiveness of alternative resources, conducted by the Council in consultation with BPA and the public. That review should be conducted pursuant to the detailed cost-effectiveness criteria set out in the Pacific Northwest Electric Power Planning and Conservation Act ("Regional Act"), 16 U.S.C. § 839a(4). It should go without saying that the assessment of alternatives must include conservation -- but the McClure amendment inexplicably omits all non-generating resources from its enumeration of options that might be preferable to completing Unit 3.

These directives could, but need not, take the form of amendments to the Regional Act; as noted in the Committee report accompanying Senator McClure's proposal, "under section 11(b) of the [Federal Columbia River Transmission System Act of 1974], BPA expenditures are subject to 'specific directives and limitations ... included in appropriations acts.' 16 U.S.C. § 838i(b)."

Conclusion

For the first time in its troubled history, WPPSS Unit 3 has assumed a status that is consistent with the unsettled state of demand forecasts and the growing availability of inexpensive conservation. For at least the next several years, Congress should do nothing that might disturb the plant's repose.

FOOTNOTES

1. U.S. Department of Energy, The Role of the Bonneville Power Administration in the Pacific Northwest Power Supply System I-3 (DOE/EIS-0066, 1981). See 16 U.S.C. §§ 832a(b), 832e & 838f.

2. "From 1940 to 1973, the wholesale rate for public utility customers of the Bonneville Power Administration dropped, when adjusted for inflation, from 1.7 cents to 0.5 of a cent per kilowatt-hour [in 1980 dollars]." Northwest Power Planning Council, Northwest Conservation and Electric Power Plan 1-1 (1983).

3. The description is taken from Natural Resources Defense Council, Inc. v. Hodel, 435 F.Supp. 590, 592-93 (D. Or. 1977), aff'd, 626 F.2d 134 (9th Cir. 1980).

4. "The Year 2000 Revisited," Remarks of BPA Administrator Donald Hodel before the Western Energy Congress, Wenatchee, Washington, at 9 (mimeo, April 16, 1974).

5. Id. at 27.

6. Id.

7. See id. at 13-14 (role of conservation in restraining load growth) & 26 (anticipated quadrupling of loads).

8. See Washington State Senate Energy & Utilities Committee, Causes of Cost Overruns and Schedule Delays on the Five WPPSS Nuclear Power Plants 14, 19 (1981).

9. Remarks of Sterling Munro, BPA Administrator, before the Northwest Electric Light and Power Association, Calgary, Alberta, at 1 (mimeo; September 17, 1979).

10. See id. at 7; Remarks of Sterling Munro, BPA Administrator, Before the Hanford Tour and Energy Seminar, Hanford, Washington, at 6 (April 18, 1980).

11. Remarks of Sterling Munro, supra note 10, at 7.

12. Thus, in 1975, NRDC brought suit on behalf of itself and five other environmental organizations to enjoin further BPA participation in the second phase of the Hydro-Thermal Power Program, pending analysis of alternatives to the Program in an environmental impact statement. NRDC subsequently published

studies, cited in note 17 infra, challenging the region's need for additional thermal capacity. The Washington Environmental Council tried unsuccessfully in May of 1976 to dissuade Northwest utilities from contracting for shares of WPPSS Units 4 and 5, citing concerns about the plants' costs and environmental impacts. See, e.g., Letter to prospective WPPSS participants from Martin Baker, Executive Director, Washington Environmental Council (May 10, 1976). Groups involved in licensing battles included Skagitonians Concerned About Nuclear Power (Skagit Units 1 & 2, nuclear, Washington); Forelaws on Board (Pebble Springs Units 1 & 2, nuclear, Oregon); and the Northern Plains Resource Council (Colstrip Units 3 & 4, coal, Montana).

13. E.g., Natural Resources Defense Council, Inc. v. Hodel, 435 F.Supp. 590 (D. Or. 1977), aff'd, 626 F.2d 134 (9th Cir. 1980) (enjoining provision of various BPA services to selected power plants then under construction, pending compliance with National Environmental Policy Act); Marbet v. Portland General Electric Co., 561 P.2d 154, 277 Or. 477 (1977) (remanding, for additional findings and development of standards governing decision, regulatory body's recommendation for issuance of site certificate for construction of two nuclear power plants). Strong grass-roots campaigns were responsible for significant statutory restrictions on the construction of new nuclear plants in Oregon and Montana. See Or. Rev. Stat. § 469.575 (1981); Mont. Code Ann. §§ 75-20-1201 to 75-20-1205 (1981).

14. "The Year 2000," Remarks of Charles Luce, BPA Administrator, Before the Northwest Public Power Association's Annual Convention, at 2 (mimeo, April 3, 1964).

15. Natural Resources Defense Council, Inc., Choosing an Electrical Energy Future for the Pacific Northwest: An Alternate Scenario 15 (Energy Research and Development Administration, 1977) (hereinafter cited as Scenario I).

16. Id.

17. Scenario I, supra note 15; Natural Resources Defense Council, Inc., Choosing an Electrical Energy Future for the Pacific Northwest: An Alternative Scenario (U.S. Department of Energy, 1980)(hereinafter cited as Scenario II).

18. See also TRW Energy Systems Planning Division, Evaluation of Electric Power Alternatives for the Pacific Northwest 1-7, 1-8, 1-10 (1977) (confirming accuracy of NRDC calculations, establishing that NRDC assumptions regarding implementation rates for residential conservation measures were less ambitious than their counterparts in the President's National Energy Plan, and

concluding that the NRDC scenario afforded a cost-effective alternative to increased reliance on thermal power plants to meet the region's anticipated electricity needs); U.S. General Accounting Office, Region at the Crossroads -- the Pacific Northwest Searches for New Sources of Electric Energy 6.13, 6.24 (1978) (an aggressive regional effort to promote conservation and renewable resource applications could sustain electricity surpluses through the year 2000 even if only those thermal plants actually under construction in 1978 were completed).

19. Based on computer printouts provided by Bonneville's Utility Studies Section and Division of Power Requirements, we have derived the following estimates of Northwest consumption from 1978-1982 (figures are in average megawatts):

| Year | Firm Sales | Non-Firm Sales* | Total Sales |
|---|---|---|---|
| 1978 | 15,887 | 734 | 16,621 |
| 1979 | 16,704 | 758 | 17,462 |
| 1980 | 16,609 | 556 | 17,165 |
| 1981 | 16,748 | 665 | 17,413 |
| 1982 | 16,283 | 259 | 16,542 |

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*Interruptible power sold to industrial customers.

Memorandum from Margie Gardner, NRDC Research Associate, to Ralph Cavanagh (May 19, 1983) (totals are based on historical sales data for Pacific Northwest Region, obtained from BPA Division of Power Requirements and nonfirm sales figures supplied in letter from Camilla L. Downing, Acting Chief, BPA Utility Studies Section, to Margie Gardner (April 8, 1983).

20. BPA was forced to increase its revenues 88 percent in fiscal year 1980. The only two previous rate increases in the agency's history totalled 3% (in 1965) and 27% (in 1974). Bonneville Power Administration, 1983 Wholesale Power Rate Draft Environmental Impact Statement I-9, I-11 (April 1983).

21. Public Power Council, Power Planning Primer: An Introduction to Pacific Northwest Electric Power Planning Issues and the Role of Public Power 26 (1981).

22. *Id*.

23. *See* Governor's Panel, A Report on the Economic Alternatives Facing the Region on Washington Public Power Supply System Units 4 and 5, at II-1 (1981).

24. In July 1982, BPA broached the possibility of 20-year regional surpluses, even assuming termination of WPPSS Units 4 and 5, Skagit/Hanford Units 1 and 2, and Pebble Springs Units 1 and 2. The agency also determined that the marginal value of electricity, for export purposes, would drop sharply as surpluses increased. Projected export prices declined to less than two cents per kilowatt-hour for quantities in excess of 500 average megawatts. Bonneville Power Administration, Technical Support Document for the Proposed BPA Near-Term Resource Policy Statement, at 10-11 (July 20, 1982). Ten months later, Bonneville was confronting near-term surpluses of up to 2000 average megawatts. *See* Bonneville Power Administration, Analysis of Alternatives Related to WNP-3, at 60, 62 (May 26, 1983).

25. *See* note 19 *supra*.

26. *See* Northwest Power Planning Council, *supra* note 2, at 1-1; Bonneville Power Administration, Analysis of Resource Alternatives: Summary and Conclusions 4 (May 26, 1983); and figures cited in note 35 *infra* and accompanying text.

27. *See* Department of Energy Information, August 17, 1983, at 1 (BPA press release announcing that Bonneville has "lowered its base case forecast for the period 1980-2000 to 1.4 percent"); Washington Energy Research Center, Washington State University, Final Report to the Washington State Legislature, Independent Review of WNP-4 and 5, at 9 (March 1982)("most likely" growth rate of 1.5 percent).

28. Northwest Power Planning Council, *supra* note 2. The Council's Plan presents a range of forecasts, bounded by high and low growth extremes. Under no conditions would new thermal generation be needed until 1998. Under "medium low" and "low" forecasts, new thermal units would be deferred beyond the Council's twenty-year planning horizon. *See id*. at 5-13. The Council was not granted planning authority with respect to five large-scale nuclear and coal-fired plants already under construction in 1980; the Plan assumes completion of these units (WPPSS Units 1, 2, and 3; Colstrip Units 3 and 4). *Id*. at 6-5.

29. *See id*. at 7-1 ("The key element in the Council's resource portfolio for meeting future energy needs is conservation"); 5-12 (Council's programs will develop up to 5150 average MW of

conservation by 2002); 5-10 (at least 3000 additional average MW of cost-effective conservation may be added to Plan in subsequent revisions).

30. Sunk costs for Pebble Springs Units 1 and 2 and Skagit/Hanford Units 1 and 2 are $293 million and $400-500 million, respectively. Energy Information Administration, Nuclear Plant Cancellations: Causes, Costs and Consequences xviii, 36 (April 1983). WPPSS Units 1 and 3 have absorbed a total of about $4 billion. Battelle Pacific Northwest Laboratories, XIV Assessment of Electric Power Conservation and Supply Resources in the Pacific Northwest -- Nuclear, at 4.9 & 4.17 (April 1983). WPPSS reports net construction and termination costs of $2.34 billion for Units 4 and 5. Id. at 4.20.

31. Energy Information Administration, supra note 30, at x (April 1983). See also U.S. Department of Energy, The Future of Electric Power in America: Economic Supply for Economic Growth, at ES-13 (June 1983) ("over 200 delays or cancellations of new coal-fired or nuclear facilities were announced in 1980 and 1981").

32. Energy Information Administration, supra note 30, at x. The Tennessee Valley Authority (TVA) affords a particularly instructive case history. Eight cancelled or deferred nuclear plants had run up average cost overruns and delays of $2.9 billion and 128 months each when construction stopped. Id. at 84.

33. Id. at 60. This is EIA's "base case" estimate. Five more units with sunk costs totalling $3.1-3.6 billion are added under a "worst case" projection. Id. at 62.

34. See, e.g., Energy Information Administration, supra note 30, at ix, 72-73; U.S. Department of Energy, supra note 31.

35. See BPA, supra note 26, at 4 ("Since December 1979, BPA rates for [utility] customers have risen from 3.5 mills/kWh to 18.0 mills/kWh"); Battelle Pacific Northwest Laboratories, The Direct Service Industries: Their Contribution to the Northwest Power System and Economy 1.8 (April 1982).

36. Utility and industrial rate increases of 27% and 5%, respectively, are planned for November 1983. Bonneville Power Administration, supra note 26, at 5.

37. Id. at 3, 6 (citing "price elasticity of demand ... as well as customer and consumer resistance to further increases.")

38. Bonneville Power Administration, Analysis of Alternatives Related to WNP-3, at 11 (May 26, 1983).

39. Id. at 11-17.

40. See 48 Fed. Reg. 28317, 28320 (1983) (estimates cover only period ending in FY 1981).

41. Cumulative BPA revenues through fiscal year 1982 totalled $6.325 billion. See Bonneville Power Administration, Federal Columbia River Power System, Repayment Study for Rate Hearings for 1983 Rate Filing, October 1, 1984 to September 30, 1985 Cost Evaluation Period, Table A: Fiscal (1983). Fiscal years 1981-1982 accounted for $2.04 billion, part of which reflects fictitious transfers of power under 1980 legislation that artificially inflate actual revenue requirements for subsequent years. See Bonneville Power Administration, supra note 59, at 14; and 16 U.S.C. § 839c(c).

WPPSS cost estimates for fiscal years 1983-1985 are presented in Bonneville Power Administration, "Questions and Answers," Table 4a (submitted to House Subcommittee on Mining, Forestry and the Bonneville Power Administration, June 10, 1983). These estimates assume completion of WPPSS Unit 2 and continued suspension of construction on WPPSS Units 1 and 3.

42. See Bonneville Power Administration, supra note 38, at 18.

43. See WPPSS Action Memorandum #24 (October 1982); Washington Public Power Supply System, Analysis of Cost/Schedule Impacts of WNP-3 Extended Construction Delay (August 10, 1983).

44. See, e.g., NRDC, Comments on the Northwest Power Planning Council's Draft Regional Conservation and Electric Power Plan, Appendix D, at 6-8 ("The Department of Energy's historic record shows a 10-year average [nuclear plant] capacity factor of 56.4% ... predictions of 10-year levelized capacity factors drop sharply as size increases ... Based on data, the projected capacity factor for a 1250 MW unit could be no higher than 55%; prudence would counsel a ceiling of 50%.")

45. For example, the May 1982 Official Statement concludes with affirmations by three engineering firms, bond counsel, and a firm of certified public accountants.

46. Washington Public Power Supply System, Analysis of Cost/Schedule Impacts of WNP-3 Extended Construction Delay (August 10, 1983).

47. See Northwest Power Planning Council, supra note 2, at 5-12 ("No conservation measure in this plan exceeds 4.0 cents per kilowatt-hour").

48. These calculations use assumptions identical to those of the "Optimistic Case," except that capital costs are adjusted to reflect delay-related costs reported in Washington Public Power Supply System, supra note 46, at 4-6.

49. See Northwest Power Planning Council, supra note 2, at 6-3.

50. These calculations assume that surplus power can be sold in 1987 at 3.5 cents (1987 dollars), escalating at 6% per year thereafter, for an average of eight months per year (during the remaining months, intertie constraints are assumed to reduce the value of surplus power substantially). Losses from surplus sales below cost are amortized over the non-surplus portion of the plant's life, and converted to 1980-dollar equivalents.

51. See Washington Public Power Supply System, Official Statement, at 6, 14 (May 1982).

52. Id. at 14.

53. See, e.g., NRDC Comments, supra note 44, and sources cited therein.

54. See M. Gardner, Evaluation of Conclusions in the Final Cost-Effectiveness Study of WNP-3, at 4 (May 3, 1983)(citing analysis of historical data from 48 reactors by Energy Systems Research Group, "which indicates that operation and maintenance costs of the larger plants have been escalating about 19% per year, net of inflation").

55. Compare Northwet Power Planning Council, supra note 2, at 5-12 (average cost of conservation recommended in Plan is 1.8 cents per kilowatt-hour in the high growth forecast) with Bonneville Power Administration, Implementation Programs for the Northwest Power Planning Council's Two-Year Action Plan, at vi-vii (August 1983)(citing "large firm energy surpluses" as basis for Bonneville's reluctance to pursue many of conservation acquisitions recommended by Council).

56. See Northwest Power Planning Council, supra note 2, at 2-1 (citing Northwest's special need for resources that can load-follow); and 3-1 (emphasizing value of resources that "can be acquired in small increments, each of which begins generating (saving) electricity immediately").

57. See note 28 infra.

58. See id.

59. The recent erosion in Bonneville's forecasts is discussed at page 2 of the text.

60. See Northwest Power Planning Council, supra note 2, at 5-10.

61. Id.

62. See, e.g., id. at 5-10; NRDC Comments on the Northwest Power Planning Council's Draft Regional Conservation and Electric Power Plan (March 18, 1983); Testimony of William J. Nicholson, Manager, Corporate Energy Services, Potlatch Corporation, before the Northwest Power Council Regarding Cogeneration in the Draft Plan (March 14, 1983).

63. See id. at 5-10 to 5-11, 10-23, 11-1. For example, the Council has responded as follows to NRDC's contention that more stringent commercial lighting standards would ultimately reduce loads by 980 average megawatts:

> The Council reviewed NRDC's proposed lighting standard and its effect on commercial building energy use. Analyses revealed that NRDC's proposal is based on accepted illuminating industry standards and available technology. However, ... NRDC's recommendation ... was rejected because the Council felt it represents too dramatic a departure from current practice without further opportunity for public comment.

Northwest Power Planning Council, Council Response to Comments, at 114 (undated: received September 1, 1983).

The CHAIRMAN. Louise Saluteen.

## STATEMENT OF LOUISE SALUTEEN, MEMBER, FAIR USE OF SNOHOMISH ENERGY

Ms. SALUTEEN. Thank you Senator. Members of the committee, ladies and gentlemen, I would like to make just a few brief comments as a ratepayer and member of FUSE and standing member of the League for the Smaller Light, ratepayers, taxpayers, voters, and other endangered species.

It has been said that WPPSS has been hit with a bum rap. With the projected energy shortage WPPSS spent billions of dollars and we no longer have an energy shortage. Well, they remind me of a story of a little girl who is doing a strange dance to keep the elephants away. But we don't have any elephants around here, I said. She said, "See, it's working." Maybe this more money dance will keep energy problems away. But it seems to me that WPPSS' money dance is the problem here.

Senator McClure, you mentioned earlier debts which we rightfully owe. I think that's an open question and I think it's been opened a little more by units 4 and 5 already. And Senator Gorton mentioned paying in any case. I think that was the story on units 4 and 5 also. This fiasco was based on incorrect projections and noticeable insufficiencies. I have no more confidence in these experts than I do in those. We don't need "son of WPPSS". It is still cheaper. Even decades of penalties on bond markets for the region does not begin to approach the demand of WPPSS debt. That's a fact.

This is the largest public debt in the history of this country excepting only the national debt and this debt could yet make the "teapot dome" look like a birthday party. So please go ahead Senators, wait a long, long time, because by then WPPSS could have its toes in the air and some of the powers that be may have learned something; no public debt without public consent, which rather reminds one of no taxation without representation, doesn't it?

I oppose passage of this bill. We can't accept a quick solution to such a long problem.

Thank you.

The CHAIRMAN. Thank you. I have just two or three questions.

Mr. Berkely, have you made an analysis of the costs of delay?

Mr. BERKELY. Yes, I have to some degree. The costs of delay, for example, let's take unit 3, we have roughly $3.9 billion invested in No. 3 and $1 billion to complete. The cost of $3.9 billion calls for, I think, the average weighted interest of 6½ percent. So just viewing the arithmatic real quick, $4 billion times 6½ percent will be somewhere around $1 million a year and that would be the cost of letting plant No. 3 just sit and do nothing. That's a terrible cost, but take a look at what happens if you build No. 3 at a cost of roughly $5 billion and one of its biggest costs, and this is an item of considerable debate, of nuclear plant last 20 years, which the track record shows so far, or will it last 40 years, which is optimistically stated in the prospectus. Instead of being conservative document they should be, are full of things like the 40-year life, and 70-percent plant capacity factor which does not belong in a conservative bond prospectus.

At any rate, I have just done a quick calculation of costs of $4 billion sitting idle and weighted interest of 6½ percent at about $200 million a year.

Let's take a look and see what happens if you wear out this $5 billion facility in a period of 20 years, which I think is $250 million a year and sell your power to California at something like $0.03. People think that's justification for completing plant No. 3, to sell the surplus power to California. Gentlemen, I could go through lots of detail on this, but basically it's not a profitable, not a break-even proposition.

Bob Ferguson himself, manager of WPPSS, 1 year ago said California needs something like 10,000 megawatts of power between now and 1990. The Region Power Council upped this to about 12,000–14,000 megawatts just a few weeks ago in a bulletin I received. If California needs this power by 1990 and has no nukes of significance on the books, they must be hard up for power. Why the devil are we willing to give them bargains. If this costs us $0.15 a kilowatt hour or $0.10 a kilowatt hour, we should be able to sell it to them at a profitable level. This gentlemen, is the world I come from where the name of the game is profit and I don't understand this business of building a plant in the case of plant 3, the last published information is $0.10 and I have heard $0.14 and bust our costs. The world I come from doesn't understand that building a product at $0.10 or $0.14 a kilowatt hour and selling it to California at $0.03 a kilowatt hour.

It's much better to take your lumps and let the $4 million facility sit idle and pay the interest of 6½ percent, or $300 million a year. You're going to lose, if the life of this plant is only 20 years, lose if the life the plant is 40 years. I have made a detailed analysis and don't have all of the figures here.

Ms. **Gardner**. The cost of delay, the cost is calculated in invested dollars——

The **Chairman**. I have read that. That's a matter of record.

One thing I was not sure of from your statement, Ms. Gardner, was the question of what assumed interest rate did you use in your calculations?

Ms. **Gardner**. On the cost of capital?

The **Chairman**. Yes.

Ms. **Gardner**. Thirteen percent cost of money.

The **Chairman**. Did you assume that that was at market rate for similar investments or did you assume a penalty on that?

Ms. **Gardner**. That's what we assumed the entity legislation would create, could go to the market and receive 13 percent, not penalty, just market.

The **Chairman**. So you are assuming ordinary market rate or a similar rating?

Ms. **Gardner**. I would argue that the rate includes a penalty. May I also say that that other 30 percent we have a 17-percent rate of money and 15 percent, and combined 30/70 percent results in 13.7 overall.

The **Chairman**. Thank you.

I have no further questions. Thank you very much for your attention.

Panel 7, Richard Bidwell and Eric Redmond.

Mr. BIDWELL. Mr. Chairman, I have submitted my testimony and I would request that it might be included in the record.

The CHAIRMAN. It will, in full.

Mr. BIDWELL. Then I would like to summarize.

The CHAIRMAN. Sure.

## STATEMENT OF RICHARD L. BIDWELL, CORPORATE DIRECTOR OF ENERGY RESOURCES, REYNOLDS METALS CO.

Mr. BIDWELL. My name is Richard L. Bidwell and I am corporate director of energy resources for Reynolds Metals Co. I am here speaking on behalf of 12 direct service and industrial customers of the Bonneville Power Administration.

The DSI's support S. 1701 and the identical legislation contained in section 317 of H.R. 3363 as adopted by the Senate Appropriations Committee. However, this should not be construed as support for the immediate completion of WPPSS 3.

There are two particular points I wish to express at the outset:

First, even though BPA has the present authority to take the actions contemplated by the legislation, congressional affirmation of this authority may help resolve financing problems surrounding WPPSS 1, 2, and 3, the net-billed projects.

Second, the DSI's would not support this legislation if it suggested that BPA complete the net-billed projects regardless of cost. We do not support completion of any plant that will increase surplus resources and costs as long as BPA persists in wrongfully allocating these costs to the DSI's.

WPPSS 1, 2, and 3 are essentially hostages in a WPPSS 4 and 5 payments crisis, and no prompt resolution of that crisis appears possible. If these hostages cannot be rescued, more than $6 billion already invested in these plants will be lost, with severe hardship to all Northwest ratepayers and potential devastation of the Northwest economy, including but not limited to the region's struggling industrial base. Although there may be disagreement about the timing of completing WPPSS 3, and even, perhaps about the wisdom of completing WPPSS 1, at the moment all debate is academic: Neither plant can completed without funds, and the WPPSS 4 and 5 crisis has created legal uncertainties that make reasonably priced financing unavailable.

This legislation may help solve some of the financing problems surrounding WPPSS 1, 2, and 3; therefore, it is a step in the right direction. The legislation reaffirms BPA's authority to arrange alternative means of completing these plants, but preserves BPA's ability to reschedule or avoid completion if such actions would be more cost effective. This balance is an essential feature of the legislation that must be retained.

Finally, as outlined in our testimony, we support this legislation and urge its enactment because it may aid the financing of the net-billed projects while preserving the BPA requirements to determine the appropriateness and timeliness of completing these projects.

Thank you.

The CHAIRMAN. Thank you very much.

We have a letter from the Boeing Co. in support of this legislation. This may be a good point to insert it in the record, a letter dated September 9, signed by Russell B. Light, vice president of the Boeing Co., in support of S. 1701.

[The prepared statement of Mr. Bidwell and the Boeing letter follow:]

# STATEMENT OF RICHARD L. BIDWELL

REYNOLDS METALS COMPANY

On Behalf of

DIRECT SERVICE INDUSTRIES, INC.

ON

S. 1701 and SECTION 317 of H.R. 3363

Seattle, Washington
September 9, 1983

My name is Richard L. Bidwell. I am the Corporate Director of Energy Resources for Reynolds Metals Company. Reynolds operates major aluminum production facilities and employs several thousand Northwest workers at Longview, Washington, and at Troutdale, Oregon. We buy our power directly from the Bonneville Power Administration as one of BPA's direct-service industrial customers.

I am here speaking on behalf of twelve direct-service industrial customers of the Bonneville Power Administration.

The DSIs support S. 1701 and the identical legislation contained in Section 317 of H.R. 3363 as adopted by the Senate Appropriations Committee. However, this should not be construed as support for the immediate completion of WPPSS 3. There are two particular points I wish to express at the outset:

> First, even though BPA has the present authority to take the actions contemplated by the legislation, Congressional affirmation of this authority may help

resolve financing problems surrounding WPPSS 1, 2 and 3, the net-billed projects; and

Second, the DSIs would not support this legislation if it suggested that BPA complete the net-billed projects regardless of cost. We do not support completion of any plant that will increase surplus resources and costs as long as BPA persists in wrongfully allocating these costs to the DSIs.

One of the most urgent tasks the Northwest faces today is to restore an environment in which decisions on the construction schedule and financing of WPPSS 1, 2, and 3 can be made on their own merits, based on the schedules and financing that are in the best interests of all regional ratepayers. At the moment, such decisions are impossible. The fear that WPPSS 4/5 creditors may ultimately interfere with the assets or revenues of WPPSS 1, 2, and 3 seems to have precluded conventional financing for these plants at any reasonable interest rate.

WPPSS 1, 2, and 3 are essentially hostages in a WPPSS 4/5 payments crisis, and no prompt resolution of that crisis appears possible. If these hostages cannot be rescued, more than $6 billion already invested in these plants will be lost, with severe hardship to all Northwest ratepayers and potential devastation of the Northwest economy, including but not limited to the region's struggling industrial base. Although there may be disagreement about the timing of completing WPPSS 3, and even, perhaps, about the wisdom of completing WPPSS 1, at the moment all debate is academic: neither plant can be completed without funds, and the WPPSS 4/5 crisis has created legal uncertainties that make reasonably priced financing unavailable.

By reassuring potential lenders that they will be repaid if additional funds are borrowed to complete these plants, the legislation may help make financing available; this in turn may help assure that if completion of one or more plants can be accomplished on financing terms beneficial to Northwest ratepayers, those terms will in fact be available. By preserving BPA's authority and obligation to assess independently for each plant the ratepayer impact of future financing and construction decisions, the legislation prevents BPA from being forced to proceed if at any point a construction slowdown or mothballing would better serve ratepayer interests.

We believe BPA is already authorized to take the actions this legislation contemplates, but Congressional affirmation of BPA's authority can help reduce future power costs for all Northwest ratepayers.

This legislation may help solve some of the financing problems surrounding WPPSS 1, 2, and 3; therefore, it is a step in the right direction. The legislation reaffirms BPA's authority to arrange alternative means of completing these plants, but preserves BPA's ability to reschedule or avoid completion if such actions would be more cost-effective. This balance is an essential feature of the legislation that must be retained.

We recognize that this legislation has been criticized, primarily, we believe, because it has been misunderstood. It has been misunderstood in at least three respects.

First, it has been alleged that the legislation would force BPA to complete WPPSS 3 at any cost. That is simply not true. No Northwest ratepayers or their Congressional representatives would support legislation that compelled BPA to complete any plant regardless of cost. The DSIs, in fact, would not support any construction schedule for WPPSS 3 that created additional surplus power if BPA persists in unlawfully allocating to the DSIs a disproportionate share of the costs of unsold surplus power.

Second, it has been alleged that the legislation would permit the creation of a "super-WPPSS." On the contrary, if a new entity is required to help complete the net-billed projects, that will be the extent of the entity's mission: to help complete those specific projects, not to initiate any new construction projects. The task facing the region is to carry out a successful rescue mission, not to launch a new expedition.

Third, contrary to some initial reports, the legislation will not expand BPA's existing authority. As explained in a recent report of the General Accounting Office, Congress long ago authorized BPA to acquire the capability of WPPSS 1, WPPSS 2, and 70% of WPPSS 3 and to pay the associated financing costs. The GAO also noted that BPA has ample existing authority to carry out this task by direct as well as indirect means. Although the GAO report focused on WPPSS 2, the applicable statutes, contracts, and legal principles are apparently identical for WPPSS 1 and 3. This legislation does not add to BPA's authority; it simply makes that existing authority unmistakeably clear.

Finally, as outlined in our testimony, we support this legislation and urge its enactment because it may aid the financing of the net-billed projects while preserving the BPA requirements to determine the appropriateness and timeliness of completing these projects.

COMO25:MPA

THE BOEING COMPANY

P. O. Box 3707
Seattle, Washington 98124

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September 9, 1983

The Honorable James A. McClure, Chairman
Senate Energy and Natural Resources Committee
SD-361 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman McClure:

I am writing to express support for Senate Bill 1701. Your concern for the health of this region's electric utility system is gratifying and your efforts to contribute to a solution to the problems of the Washington Public Power Supply System are appreciated.

In these times of hardship for the region's economy, its businesses, industry and its people, we can ill afford to waste valuable resources. Losing the capital investment in a multi-billion dollar power project 75 percent complete is indeed a waste: a waste of monetary and electrical resources, and a waste of the benefits it could provide to revive and sustain the future well-being of the Pacific Northwest. We feel it is imperative that every effort be made to save this resource from being lost: S.B. 1701 is such an effort, and we support it as an additional option in a situation where options are scarce, and solutions obscure.

Our concern is that in delaying positive action, in waiting until uncertainties may be resolved, a decision is in effect being made to abandon the project. We share the concern expressed by Governor Spellman that a nuclear power project at this stage could not be successfully "mothballed" and then restarted. Valuable momentum has already been lost; and more is lost each day that passes—momentum which is very difficult to regain. This condition makes an early solution imperative.

The Boeing Company is one of the larger ratepayers in the region, having purchased about nineteen million dollars worth of electricity in 1982. Therefore, we are naturally concerned about the rapidly rising cost of electricity. We at Boeing are in an intensly competetive industry and every cent of unneccessary cost is a liability that we must overcome. But we are also concerned that the supply system situation may lead to a breakdown in the close cooperation that has evolved between private, public and government utilities in the region. We believe such a breakdown would in turn affect the reliability of service to ratepayers. For our company, a labor intensive business, even the slightest interruption of production schedules is very costly.

Again, we believe it would be far better to complete the remaining 25 percent of Plant 3 and have an operable asset—even if a use had to be found for the output until it was needed. To abandon the 75 percent investment already made in the plant would be to waste a very scarce commodity - capital.

Thank you for your efforts.

Sincerely yours,

Russell B. Light

Russell B. Light
Vice President
Government& International Affairs

BOEING

cc: Washington State Delegation

The **Chairman**. Mr. Bidwell, one thing I note, and which you had included in your summary, because it hasn't been said here as well, is on page 4, you set out three aspects of which you believe the legislation has been misunderstood. Would you care to summarize those three points?

Mr. **Bidwell**. I would be happy to read those three points for you and add them in the record.

First, it has been alleged that the legislation would force BPA to complete WPPSS 3 at any cost. That is simply not true. No Northwest ratepayers or their congressional representatives would support legislation that compelled BPA to complete any plant regardless of cost. The DSI's, in fact, would not support any construction schedule for WPPSS 3 that created additional surplus power if BPA persists in unlawfully allocating to the DSI's a disproportionate share of the costs of unsold surplus power.

Second, it has been alleged that the legislation would permit the creation of a super-WPPSS. On the contrary, if a new entity is required to help complete the net-billed projects, that will be the extent of the entity's mission: To help complete those specific projects, not to initiate any new construction projects. The task facing the region is to carry out a successful rescue mission, not to launch a new expedition.

Third, contrary to some initial reports, the legislation will not expand BPA's existing authority. As explained in a recent report of the General Accounting Office, Congress long ago authorized BPA to acquire the capability of WPPSS 1 and 2, and 70 percent of WPPSS 3 and to pay the associated financing costs. The GAO also noted that BPA has ample existing authority to carry out this task by direct as well as indirect means. Although the GAO report focused on WPPSS 2, the applicable statutes, contracts, and legal principles are apparently identical for WPPSS 1 and 3. This legislation does not add to BPA's authority; it simply makes that existing authority unmistakably clear.

The **Chairman**. Thank you very much. I appreciate the recitation of those facts.

I have no further questions at this time. I appreciate your testimony.

Panel No. 8, various people from the Light Brigade, Mr. Miller, Ms. Dobyns, Ms. Ko, Mr. Lhotka, Mr. Hamilton, Mr. Scales, Mr. Gallucci.

## STATEMENT OF RAYMOND MILLER, STEERING COMMITTEE MEMBER, LIGHT BRIGADE

Mr. **Miller**. Senator McClure, honorable members of the committee, my name is Ray Miller. I am 61 years old, have been a Washington State employee for 12 years, a member of my union local executive board for 10 years, and a member of the 6,000-member strong ratepayer organization—the Light Brigade, for 6 years.

I want to apologize that so many members of our group had to go back to work today. I'm taking 6 hours of my vacation time just to be here.

Today I speak for myself; a retiring worker who has worked hard to make our Government work for the people whom you all serve. The reason that I am testifying today is the same reason that Americans fought so long ago to create this great country; a voice, a public voice in matters and affairs that directly affect our lives.

Long ago the cry was, "No taxation without representation," today that same cry is ringing throughout the Northwest. We say to you, the good citizens of the Northwest have had absolutely no say in the development and construction of the troubled Washington Public Power Supply System's nuclear plants and we therefore feel no obligation to pay for those who pushed for their completion. We say, "No taxation without representation."

It is exactly this statement of freedom, the cry on which our country was founded, that you will be taking away from the ratepayers of the Northwest if you pass Senate bill 1701. You will tax the ratepayers, through the Bonneville Power Administration, a public entity, for an energy-producing plant that we had absolutely no say over, no vote on, and no voice in. I say "No taxation without representation."

If Senate bill 1701 passes, it will be viewed by the ratepayers of the Northwest as a public bailout of a private industry. Private corporations should not look toward the public sector of this country to subsidize their losses which are incurred due to poor foresight. Senate bill 1701 can only be viewed as a private utility bailout, one that will be paid for by ratepayers who shall never benefit from the fruits of their pocketbooks. Senate bill 1701 is purely a private gain and a public loss.

Underlying the American tradition of no taxation without representation is a true bottom line, the fact that WPPSS Nuclear Plant No. 3 is not needed. Energy forecasts by BPA and the Regional Power Council show that plant No. 3 is not needed to fulfill the energy needs and requirements of the region. It is not needed now; it may not be needed later. Studies also show that completing plant No. 3 is not the most cost-effective way to meet regional power demands of the future. Senate bill 1701 shows the same lack of foresight which created our regional energy crises—not the lack of power, but the lack of intelligent foresight.

I will close by suggesting that even if Senate bill 1701 passes, it will not, it cannot, improve the plight of Northwest ratepayers. If plant No. 3 is completed, through a public bailout of private power companies, the energy produced will only flood an already overabundant market. The end results will be higher rates, due to fixed costs, without any positive improvements or benefits for the region.

I say, "No taxation without representation." Let's not line the pockets of a few at the expense of the many. If our forefathers had the courage to stand up and create a great country in the face of impossible odds, let us hope that we have the courage to stand up and call Senate bill 1701 exactly what it is: taxation without representation.

Thanks for the chance to speak.

Senator McClure. Surely, Mr. Miller.

Carol Dobyns.

## STATEMENT OF LOU WILSON, MEMBER, LIGHT BRIGADE

Ms. WILSON. My name is Lou Wilson and I am speaking in place of Carol Dobyns who also had to leave. I am one of the people who founded the Light Brigade. Carol is the president of the Light Brigade.

The Light Brigade is a citizens' organization dedicated to watchdogging our public utilities in the cities of Seattle and Tacoma, Wash. Our 7-year-old organization is supported by well over 6,000 dues-paying members and by 17,000 citizens. The petitions in this box—can't part with them—but if you want to look at these they are here. They are statements of people who support the work that we do.

We were founded in 1977 to fight the utility rate surcharge and the Light Brigade has a great history of serving the people of Seattle and Tacoma. In just the last year, October 1982 through August 1983 the Light Brigade has won reductions in the unjust and inequitable rates and proposed rates of our public utilities, Seattle City Light and Tacoma City Light. We watchdog in order that our members and the residential ratepayers in our cities may pay equitable and justifiable rates for the electricity that they use and so the citizens for whom our utilities serve can have a voice in how their service is provided.

Stepping aside slightly from what Carol had intended to say, I would like to remind those of you who don't know, the city of Seattle has a deep commitment to public power. We had a man out here named Ross who at one time was in disfavor with the mayor who intended and did try to remove him from his position as head of City Light. And Mr. Ross ended up back at the head of Seattle City Light. And Seattle City Light are public utilities and we have stockholders in that utility, have a very dear and close connection to it and sense of its belonging to us and being important to us. I say it's like the diamond ring on my finger that you don't see. It has, through the years, served us well. It's a precious commodity to each and every member of this city and the people of Tacoma feel the same way. We don't intend to lose that. We don't intend to let someone take that precious commodity away from us.

The Light Brigade is strongly opposed to Senate bill 1701 because it runs counter to every belief we hold. The bill denies the right to public voice. The bill denies the right to public power, a strong Northwest tradition, the right to rule its own destiny and regulate its power purchase and rates. The bill denies much needed jobs in the Northwest. The bill is a public bailout of private power. The bill will cost and cost and cost. We believe that Senate bill 1701 is just plain bad legislation.

The Light Brigade, our 6,000 members and 17,000 signing supporters cannot and will not stand by and watch public control be undermined by bailout of private power. That's not what we are about. That's not what this country is about and that doesn't fit in with the history of the State of Washington. We cannot, will not let Senate bill 1701 put a surcharge on our rates for the sake of helping private industry cover up its mistakes and lack of prudent foresight.

By now you have heard all of the pros and cons of the bill. What you must do is decide which side represents the interests and thoughts of the people of the Northwest and the ratepayers of this region. The Light Brigade submits to you a vote of the people and the people say "No" to 1701. Over and over again the public says "No" while the vested interests say "Yes". Can't you hear us? This is your government of the people. Our organization is an organization of the people and the people are unwilling to say that they will pay more. Our 6,000 members and 17,000 signatures that we have before today is a voice of the people and we are saying loudly, "No" to Senate bill 1701.

I have an addendum to that, to what Carol has written. I think today you have heard probably every kind of an expression of thought that is obtainable and maybe you'll garner a few more and it must be very difficult to sit there and sift out what do we believe, what makes sense, what doesn't make sense. So I would like to remind you of one way to judge the sense of something, is how the people who protect it or promote it have performed in the past. Who was it who told us we won't even have to meter nuclear power, it will be so cheap, we won't put meters on it. Who is it that told us their industries had to have those nuclear plants? Who is it not saying the cost is getting very high. We don't know whether or not we can survive the energy costs like we are going to see. The same people wanting the nuclear plants. What did the people say? The people weren't heard from, were they?

When the forecast was made, who made those forecasts? The same experts testifying before you now. They made forecasts, said we were going to need that tremendous amount of energy. There was one forecast, I think a person from that organization testified today, someone you might bear, it might bear fruits for you to listen to them, and that was watchbirds and, as I recall, they were the only graphs I saw that predicted a very slow or very light increase in power usage in the State of Washington.

My feeling is if we don't learn from history, we repeat it. I don't want to repeat what we have gone through. We want to get rid of it. We can learn from it, hopefully, but we don't want to bear any more burden on our backs than we have already got. I have confidence in the common people. I don't know a man or woman who lives on my block that would have gone for some of the things that WPPSS has gone for, who would have invented five nuclear plants with five different designs, would have written contracts that were not contracts. My husband was a buyer for Boeing, he would never have written a contract that says we promise to give you this and this and this and for it you don't have to give us anything. You don't have to promise us power or anything. And you can raise your costs however they please you. If they go up and up and up, we'll pay them up and up and up.

Let's take some kind of conscionable look at these things. Let's have some confidence in the wisdom of common man and I see common people who every day have to work out their budgets, women who have to look at what their dollar is going to buy this week, who have to see their electricity bills go up and up and up in this area, houses that were not designed for expensive electricity. Many of us have all electric homes sold us on the basis of cheap electric power. So don't talk to us about 7 cents a kilowatt hour isn't much, 11 cents a kilowatt hour isn't that great, they're paying that back East. But the people back East do not depend on electricity as their major source of power and heating water and six other things. We do. It's important to us and I pray to God that you make a good decision.

Thank you.

## STATEMENT OF MS. WERSCHNEG, MEMBER LIGHT BRIGADE

Ms. WERSCHNEG. I have been asked to take the place of the people from Tacoma who are unable to come up today. After listening to all of this, I see that you have a few questions, that you want to know how to get out of this mess. Apparently the bank is broke now. We don't have any more money so we can't go on, but, yet, we have to go on. What we want, we don't have the money for.

From what I have been hearing while listening to you, I see there were a few crooked things going on. A few lawsuits are going on that the lawyers will be paid for. We need a little extra money and we just don't have it so the only solution I can think of is why not have these people that did all this crooked stuff, why not let them buy the bonds and settle the debts somehow without going through the lawsuits.

Thank you.

The CHAIRMAN. Thank you. I take it the other members of the panel have had to leave; is that correct?

Ms. WERSCHNEG. Yes.

The CHAIRMAN. Perhaps I can ask one question. If there were no impediment for financing the completion of No. 3, or in other words, if they had gone according to schedule, and had been able to go to the market and borrow more, would you still be opposed?

Ms. KO. I am opposed to building anything we don't need. I am opposed to the public being the holder of all of these debts when we don't need the product.

The CHAIRMAN. Your answer, I take it, is, under any circumstances, you would be opposed to the completion of No. 3 because you are convinced it is not needed now or in the immediately foreseeable future; is that correct?

Ms. KO. That is correct.

The CHAIRMAN. Panel No. 9, Wendell Satre, chairman of the board and chief executive officer, and Jim Durham, senior vice president/general counsel.

## STATEMENT OF WENDELL SATRE, CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER, WASHINGTON WATER POWER CO.

Mr. SATRE. Mr. Chairman, Senator Gorton, ladies and gentlemen. My name is Wendell J. Satre. I am chairman of the board and chief executive officer of the Washington Water Power Co. With me is my colleague, James Durham, the senior vice president and general counsel for the Portland General Electric Co. We appear here today on behalf of three investor-owned utilities involved in the No. 3 projects, along with the Washington State Power Supply System. Those utilities are Pacific Power and Light Co., Portland

General Electric Co., Puget Sound Power and Light Co., and Washington Water Power Co.

I appeared before your committee earlier in hearings in Washington, D.C., on August 3, 1983, at which time I stressed the risks and costs associated with implementing an extended construction delay for Project No. 3. I also stressed the need to complete the project in a timely manner both as attested to by the inclusion of the project in the Regional Council's recently completed 20-year regional power plan as well as buy, for example, Water Power's most recent load forecasts which show that it does not have enough firm resources to meet its forecasted loads beginning in 1987 and continuing through the decade.

Third, I stress the very limited character of S. 1701 and emphasize that the bill is simply to make clear that BPA could do what it committed to do originally in the net-billing agreements. The last point I make in my earlier testimony before the committee was that the solution of the supply system's problems had to start somewhere. I have emphasized that S. 1701 is the logical starting point. At about that time, a report by the Comptroller General of the United States concerning BPA's authority to finance the supply system's net-billed projects was issued. That report, dated August 2, 1983, concludes that BPA has the necessary statutory authority to use its revenues to fund construction of the supply system's net-billed projects.

Therefore, S. 1701 cannot be classified as a grand expansion of BPA's authority or characterized as a Federal bailout. I would emphasize that, contrary to the allegations by some that S. 1701 is a bailout of the private utilities, the investor-owned utilities will not receive one dime if the legislation is enacted. We have financed our 30-percent share of WNP No. 3 through our own sources, and we are able and prepared to continue to finance our share.

S. 1701 does not place new obligations on the Federal Government, expand BPA's authority or amount or a Federal bailout as some would choose to characterize it. Interestingly, another criticism of S. 1701 is that it is too narrow in that it only permits short-term banking finances which would be too expensive for BPA to support with its revenues. There is no basis for this argument in the language of S. 1701. By its terms, it is not limited to short-term financing and would support long-term financing just as easily as the existing net-billing agreements have done. S. 1701 provides the maximum flexibility to structure whatever financing is in the interest of the region, whether it be short term, intermediate term, long term, or some combination.

It has been asserted that this legislation would somehow permit BPA to resurrect WNP 4 and 5. That is not the case as S. 1701 addresses only Federal base system resources, which, as defined, do not include WNP 4 and 5.

I think it is appropriate that I bring the committee current on an event which transpired since my earlier testimony before the committee on August 3. Specifically, I am referring to the claims which my company and the other investor-owned utilities with an interest in project No. 3 have filed in Federal district court in Seattle to compel WPPSS and BPA to complete project No. 3 if they do not choose to do so voluntarily. While I cannot discuss the case on the merits, I do wish to express my belief that our actions in bringing those claims are entirely consistent with our continuing support of S. 1701.

When BPA first proposed to mothball project No. 3 and WPPSS delayed construction, they asserted as their reason for such action an inability to finance their share of that project. S. 1701 would cure that inability and consequently, we have continued to strongly support it. Interestingly, however, today we hear less and less about inability to finance being the reason to delay project No. 3 and new alleged reasons continue to surface. Therefore, to protect our customers from the unnecessary high burden of costs of delay, we have been forced to go to Federal court to enforce our contractual arrangements since our cooperative efforts to develop solutions have not been successful.

It seems to me in regard to the supply system project No. 3 that we have three choices: One, is to continue construction, delay construction is another, or a third, is to abandon. Abandonment would settle the region with a debt comparable to the size of the debt of 4 and 5, something like $2 billion. Delaying construction increases the cost and the longer it is delayed the higher the cost is increased. Continuing construction is the lowest possible alternative available to us today.

Mr. Chairman, I should like to thank you and Senator Gorton for the efforts you are making in trying to avert the further burdening of WNP No. 3. Our appreciation, of course, is extended to your other colleagues who are assisting you in this effort. I think it is appropriate today to recognize the outstanding role played by Senator Jackson. We shall miss his wise counsel and dedicated service. I thank you for the opportunity today.

[The prepared statement of Mr. Satre follows:]

# TESTIMONY OF WENDELL J. SATRE BEFORE THE SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES
## SEPTEMBER 9, 1983

Mr. Chairman, ladies and gentlemen. I am Wendell Satre, Chairman and Chief Executive Officer of The Washington Water Power Company. Today is the second time I have testified before the Committee in support of S. 1701. On August 3, 1983, I made a statement on behalf of the bill in Washington, D. C. At that time, my statement was presented on behalf of Water Power as well as on behalf of the three other investor-owned utilities in the Northwest which together with Water Power own 30% of WPPSS Project No. 3 at Satsop, Washington. Those utilities are: Pacific Power & Light Company, Portland General Electric Company and Puget Sound Power & Light Company. My statement today is likewise on behalf of both Water Power and those other investor-owned utilities with an ownership interest in Project No. 3.

In my earlier statement before the Committee, I emphasized a number of points. First, I stressed the risks and costs associated with implementing an extended construction delay for Project No. 3 which, prior to BPA's and WPPSS's unilateral actions, was progressing so well toward completion. Second, I stressed the need to complete the project in a timely manner both as attested to by the inclusion of the project in the Regional Council's recently completed 20-year regional power plan as well as by, for example, Water Power's most recent load forecasts which show that it does not have enough firm resources to meet its forecasted loads beginning in 1987 and continuing through the decade. Third, I stressed the very limited character of S. 1701 and emphasized that, in my view, it was not the purpose of the proposed legislation to create new authority or change existing legal relationships. Rather, the bill simply made crystal clear that BPA could do what it committed to do originally in the net billing agreements -- that is, use its revenues as security for financing to completion Project No. 3.

The last point I made in my earlier testimony before the Committee was that a solution to WPPSS's problems had to start somewhere. I emphasized that S. 1701 was a logical starting point since it preserved existing relationships and existing agency authority and was directed at only containing WPPSS's problems while more comprehensive WPPSS solutions could be worked out such as those which may be recommended by the Governor's Advisory Panel ("Luce Commission").

Today, I do not intend to reiterate the points which I made in my earlier testimony. Rather, I will emphasize the recent developments which confirm those points and in addition address certain popular criticisms of S. 1701.

When I presented my statement before the Committee in Washington, D. C. on August 3, 1983, a report by the Comptroller General of the United States concerning BPA's authority to finance the WPPSS net-billed projects had just been issued. Consequently, my statement did not address the impact of that report on the proposed legislation. That report, dated August 2, 1983, concludes that BPA has the necessary statutory authority to use its revenues derived from sale of federal power and transmission services to fund construction of the WPPSS net-billed projects directly. Obviously, what BPA can do directly it can do indirectly and the GAO report provides conclusive support for the proposition which I emphasized in my earlier testimony that BPA already has the authority to use its revenues as a backup for financings by other entities to complete the net-billed projects. Therefore, S. 1701 cannot be classified as a grand expansion of BPA's authority or characterized as a a "federal bail out". I would emphasize that, contrary to the allegations by some that S. 1701 is a "bail out of the private utilities", the investor-owned utilities will not receive one dime if the legislation is enacted. We have financed our 30% share of WNP No. 3 through our own sources and we are able and prepared to continue to finance our share. A strong argument could be made that, but for the recent Washington Supreme Court ruling and subsequent default by WPPSS on its Project No.s 4 and 5 bonds, both of which events have justifiably made the financial community jittery about participating in further financings of the WPPSS projects, there would be no need for S. 1701. Rather prior to the Washington Supreme Court decision and the subseuqent 4 and 5 default, I should think that financing of the type envisioned by S. 1701 could have been accomplished with the support of lawyers' opinions reaching the same conclusions as reached in the August 2, 1983 GAO opinion. However, today, lawyers' opinions for WPPSS related financings simply do not carry the weight they once did for obvious reasons. The financial community requires something more and S. 1701, in my view, seems to meet those requirements.

There is another important conclusion which follows from the fact that S. 1701 does not create new authority in BPA but rather is a clarification of existing authority. That conclusion is simply that S. 1701 is not "authorizing"legislation and that it is entirely proper for Congress to consider it as part of the appropriation process. In fact, it appears that it is not only proper but existing statue provides that directives to BPA on how it uses its revenues may be included in appropriation acts. Specifically, in this regard, Section 11 (b) of the Federal Columbia River Transmission System Act, which became law in 1974, permits BPA to make expenditures from its revenues "within such specific directives or limitations as may be included in appropriation acts." S. 1701 represents simply one such directive and procedurally is consistent with the mandates of the Transmission System Act. It does not place new obligations on the Federal government, expand BPA's authority or amount to a "federal bail out" as some would choose to characterize it.

Interestingly, another criticism of S. 1701 has surfaced which is the opposite of the one which I just described. Instead of arguing that S. 1701 is too broad and creates new authority in BPA, others have chosen to argue that it is too narrow in that it only permits short-term bank financings which would be too expensive for BPA to support with its revenues. There is no basis for this argument in the language of S. 1701. By its terms, it is not limited to short-term financing and would support long-term financing just as easily as the existing net billing agreements have done. I am heartened to see that there are witnesses today from the financial community who will discuss this very point so that I will just emphasize that S. 1701 provides the maximum flexibility to structure whatever financing is in the interest of the region's electric ratepayers whether it be short term, intermediate term, long term or some combination.

It has been asserted that this legislation would somehow permit BPA to resurrect WNP 4 and 5. That is not the case as S. 1701 addresses only Federal base system resources which, as defined, do not include WNP 4 and 5.

I think it is appropriate that I bring the Committee current on an event which transpired since my testimony before the Committee on August 3. Specifically, I am referring to the claims which my company and the other investor-owned utilities with an interest in Project No. 3 have filed in Federal District Court in Seattle to compel WPPSS and BPA to complete Project No. 3 if they do not choose to do so voluntarily. While I cannot discuss the merits of that pending litigation with you, I do wish to express my belief that our actions in bringing those claims are entirely consistent with our continuing support of S. 1701. When BPA first proposed to "mothball" Project No. 3 and WPPSS delayed construction, they asserted as their reason for such action an inability to finance their share of that project. S. 1701 would cure that inability and consequently we have continued to strongly support it. Interestingly, however, today we hear less and less about inability to finance being the reason to delay Project No. 3 and new alleged reasons continue to surface. These reasons, even if they were true, do not support relieving BPA, WPPSS and the public agency participants in Project No. 3 of the agreement to complete the project promptly. Therefore, to protect our customers from the unnecessary high burden of costs of delay, we have been forced to go to Federal Court to enforce our contractual arrangements since our cooperative efforts to develop solutions so that others could fulfill their obligations have not been successful.

Mr. Chairman, I should like to thank you and Senator Gorton for the effort you are making in trying to avert the further burdening of the region's electric customers with the costs that would result if construction of WNP No. 3 does not move forward. Our appreciation is extended to your other colleagues who are assisting you in this effort.

I think it is very appropriate to recognize the outstanding role played by Senator Jackson. We shall miss his wise counsel and dedicated service.

Thank you.

The CHAIRMAN. Thank you, Mr. Satre.

## STATEMENT OF JIM DURHAM, SENIOR VICE PRESIDENT AND GENERAL COUNSEL, PORTLAND GENERAL ELECTRIC

Mr. DURHAM. Mr. Chairman and Senator Gorton, in the interest of time, Mr. Satre's testimony is given on behalf of my company, too. I will not take any further time, unless you have questions.

The CHAIRMAN. Have you done an analysis, either of you, or either of your companies, with respect to the cost of delay? It's been suggested on the part of some that the WPPSS Board and the BPA have elected to preempt slowdown construction activity at No. 3, and that cost does not increase over time; that's the reason for my question.

Mr. SATRE. I think each of us has done our own analysis and others, of course, have made analyses, too, as to the cost of delay. In case of the analysis made by our company, the cost of delay would increase the cost to us and that's assuming a 3-year delay as recommended by the BPA. It would increase the cost to us by an amount of $135 million for the share we have. Other analyses which have been made vary all the way from $250 million for the delay of the project to something over $2 billion, and I think Mr. Durham may be able to speak for his own company.

Mr. DURHAM. Our figures are in the same range, Mr. Chairman, but they all depend on the assumptions that go into the calculations and projections. The one thing that is very clear to us is that the delay, continuing delay, is going to cost our customers money which we don't think they should be tagged with.

Senator GORTON. What would you, or your companies, have had use for with your 30 percent, collectively, of power from WPPSS 3 for your own ratepayers immediately upon its going on line had it continued on its original schedule?

Mr. SATRE. Our company would have had the use for it almost immediately upon its coming into service. It was planned to go into service in December 1986, and our forecasts indicated a need for the project in 1987.

Mr. DURHAM. We would have been a little further out based on the current load projections. At the time we entered into the agreement we were still figuring on completion in 1987. We are still counting on that. It would still be somewhat of a surplus, but not significant.

Senator GORTON. Can you speak to the other IOU's?

Mr. SATRE. As far as Puget Sound Power & Light Co. is concerned, they do have a need for it, as projected, coming on line in December 1986. For Pacific Power & Light Co., they, like Portland General Electric Co. would not have the need for it immediately. It would be a little further on.

The CHAIRMAN. Thank you, I appreciate your testimony; there has been some question concerning that issue of why the cost is greater to complete the project now or to delay it for some period of time. I think it's fair to say that, at best, the evidence before us is conflicting, and we are looking for the best facts we can get on which to base our judgments. We would appreciate any additional information you could give to us in the days and the weeks and, perhaps, the months ahead with respect to that issue.

I can't help but refer, again, to what seemed to me to be good sense, and I have not yet been disabused of that, but, perhaps, I will be before the end of these hearings. As expressed by Senator Jackson, in his statement at our hearing on August 3, and I quote from his statement only because so far I haven't yet been disabused of this same notion. Senator Jackson said then: "It only makes sense to complete these projects so that they can generate electricity and revenues from the power sales to help retire the debt incurred." That, perhaps, is too simple an expectation and there are those who said that that power is going to cost us more to produce than we can get from selling it; if that is true, even more than from the incremental costs to produce. We have very low forecasts, and I know you and your companies were involved inthe ENOX forecasts in past years and those forecasts were revised constantly upwward over a period of years and in more recent years, have been constantly revised downward.

I guess that's a way of saying none of us knows exactly what's going to happen. I appreciate your testimony and your suport for the legislation. I, too, don't believe this is a total solution to the problem that lies before this region, but I hope that by working together we can find one.

Mr. SATRE. Mr. Chairman, we would subscribe to the statement you just read, quoting Senator Jackson, and we believe that it is true that the most benefit of the region derives from the completion of those plants and to have them available so that power can be sold and revenues created which can retire the indebtedness. Without them, we have a debt that cannot be serviced in any other way.

The CHAIRMAN. Thank you very much. I appreciate your testimony.

Panel No. 10, Fred Heutte, Benita Helseth, and Joe Ryan.

## STATEMENT OF FRED HEUTTE, STATE COORDINATOR, SOLAR OREGON LOBBY

Mr. HEUTTE. Mr. Chairman, thank you and good afternoon. My name is Fred Heutte, and I'm coordinator of the Solar Oregon Lobby. I appreciate the opportunity to appear before you today, and I will be happy to summarize the whole testimony we have submitted for the record.

Our organization is well aware that such development is just one tool in the effort to maintain a healthy regional economy. Therefore, we have advocated for that development within the brighter context of the entire regional energy system, and it is from that perspective that we present this testimony.

We recognize that prudent investments must be made to maintain and expand the capabilities of our regional energy system. This is not to say, however, that all potential resources should be built, nor that any costs should be borne even to complete a partially built powerplant. But we also believe that consideration of WPPSS 3 and isolation from the rest of the WPPSS plants is wholly inadequate, even if the questions of cost-effectiveness and need were to be definitively resolved.

Overall, the evidence suggests that a construction delay at WPPSS 3 could be a salutary development.

First, it will provide additional time to analyze the cost effectiveness of completing and operating the plant.

Second, it will provide time to make prudent financing arrangements if a thorough investigation results in a recommendation to complete construction.

Third, and most importantly, it will provide time for the region and the Nation to devote to the larger issues that WPPSS presents.

In our view, at this time any strategy for completion of WPPSS 3 is not likely to succeed if the overall WPPSS crisis is not addressed. Some of the features which inexorably tie WPPSS 3 to the rest of the WPPSS plants include:

First, the involvement, in WPPSS 3, of nearly every utility, in the region and the participation, or lack thereof, in the other four WPPSS plants.

Second, the litigation over cost sharing with WPPSS nuclear project No. 5.

Third, potential judgments in WPPSS 4 and 5, which litigation could result in attachment of revenues for the net-billed projects.

Fourth, questions concerning the underlying authority of the participant public utilities in WPPSS 3.

Fifth, the questions also regarding the authority of BPA with respect to all three net-billed projects.

Sixth, overlapping Federal and State jurisdiction.

A strategic approach to the overall WPPSS problem would first recognize the salient features of the situation we are facing:

First, WPPSS is not, as many observers have noted, alone as a nuclear construction program faced with cost overruns and delays. It does, however, incorporate a unique set of extraordinary institutional relationships.

Second, what happens to WPPSS will surely have national implications, particularly in the field of municipal finance.

Third, there is a multiplicity of parties involved, and the cost of pursuing litigation at all points is trivial in comparison to the potential monetary judgments involved.

Fourth, the existing authority related to the net-billed projects assigned to Bonneville has been reexamined at this time, but I don't think that issue has been finally resolved.

Fifth, WPPSS-related litigation is raising significant legal issues in the national arena in a number of areas.

Sixth, WPPSS, contrary to the assertions of many, is not merely a State or regional problem and cannot be resolved solely at that level.

Seventh, the WPPSS debt is uniquely resistant to ordinary rescheduling, since most of the debt is held as long-term security that would be difficult to extend or roll over under any circumstances.

Eighth, chapter IX of the Bankruptcy Act, is not available until and unless Congress acts to reinstate the law to form a solution to this problem.

Ninth, the net-billed projects represent potential future impacts on the U.S. Treasury in three ways; deferral of payment on the

Federal Columbia River System, loss of tax revenue in the wake of the reduced market value of WPPSS securities, the potential of a direct impact on the Treasury if any of the net-billed projects are terminated, as some observers have suggested in the light of Judge James Redden's ruling in the Springfield, Ill., lawsuit this May.

We believe that the careful and thorough attention by Congress to the present circumstances is both timely and essential. The WPPSS crisis is insoluble at the State level. It is insoluble in the courts because of the complexity of issues, the multiplicity of parties and the adversarial climate that has been created in that arena. The Pacific Northwest is facing a decade or more of litigation involving thousands of direct litigants, tens of millions of documents, hundreds of millions of dollars in legal costs, and potential settlements in the billions of dollars.

This path inexorably leads our region into an extended period of uncertainty which is most unwelcome as we struggle to consolidate the regional atomic recovery. We do not believe that a solution proposed at this time will be acceptable to the affected parties. We do not believe that Congress is correct to take an interest in this matter, as it vitally affects many important areas within its purview. What we seek is a forum for making significant advances in defining and understanding the issues at hand. We respectively suggest that the Congress might possibly employ its good offices to investigate thoroughly the many aspects and contentions of the WPPSS crisis.

Therefore, we encourage the members of this committee to consider expansion of efforts concerning WPPSS and orient those efforts toward a different near term objective, that of a full-scale congressional investigation of WPPSS. Such an effort would be of national perspective, would carefully planned, thorough, and accessible. Congress may, perhaps, form a select or special committee to proceed on this matter.

We cannot predict whether the results of a full and thorough congressional investigation may lead directly to a legislation solution or, more modestly, to the creation of a forum for resolution of an apparently insoluble crisis, but the key quality missing at present from efforts to address the WPPSS crisis is leadership, which looks beyond the superficial issues, finds common ground among adversaries, promotes cooperation over coercion, and thus reaches an early and equitable conclusion to a pressing problem. That is the kind of leadership the Federal Government offered to this region in the thirties, and that is the kind of assistance we turn to you for once again at this time.

Thank you for your interest in my comments. I would be pleased to answer any questions.

[The prepared statement of Mr. Heutte follows:]

Solar Oregon Lobby

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**TESTIMONY OF FRED HEUTTE**
**State Coordinator**
**Solar Oregon Lobby**

United States Senate Energy Committee
Hearing on S. 1701
Seattle, Washington
9 September 1983

Good afternoon. My name is Fred Heutte and I am the state coordinator of the Solar Oregon Lobby, a broadly-based citizens organization with several years of experience in promoting the development of conservation and renewable energy resources. We are well aware that such development is just one tool in the effort to maintain a healthy regional economy. Therefore, we have advocated for the development of solar and conservation within the broader context of the entire regional energy system, and it is from that perspective that we present this testimony today.

The health of the regional energy system is threatened directly by the troubles of the Washington Public Power Supply System. No utility, ratepayer, private business or seat of government in the region is exempt from this crisis. All of us are paying, both directly and indirectly, for the construction costs of these plants, and the burden is onerous indeed. WPPSS will soon be draining more than $800 million per year from the regional economy through BPA Net Billing charges. This amount is more than double the entire BPA budget for the year of 1978.

We recognize that prudent investments must be made to maintain and expand the capabitlities of our regional energy system, and that our era of low power rates is gone. This is not to say, however, that all potential resources should be built, nor that any cost should be borne even to complete a partially built power plant. Much of the discussion today focuses, therefore, on the question of whether completing WPPSS Nuclear Project No. 3 is a timely and prudent investment.

But we also believe that consideration of WPPSS 3 in isolation from the rest of the WPPSS plants is wholly inadequate, even if the questions of cost-effectiveness and need were to be definitively resolved.

## 1. DEFICIENCIES OF S. 1701

The legislation proposed in S. 1701 does not address several of our major concerns, nor persuade us that a restatement and expansion of the existing BPA authorities is required to underwrite construction of WPPSS 3.

(1) Prudent utility practice. The proposed measure does not provide the Bonneville Power Administration with increased control over project construction commensurate with its increased responsibility for financing.

(2) Adequate definition of roles. The proposal does not adequately define and regulate changing institutional relationships between BPA, WPPSS, the region's utilities, and a potential financing entity. The powers and responsibilities of the proposed entity, critical to an evaluation of the proposed legislation, are wholly unclear. Protection for ratepayers, utilities and investors alike is therefore lacking.

(3) Oversight of BPA. S. 1701 does not provide an adequate increase in review and oversight of BPA by Congress and the states and ratepayers of this region sufficient to safeguard a potential investment of at least $1 billion in principal and far more in total repayment.

## 2. SUBSTANTIAL REASONS FOR DELAY OF WPPSS 3 CONSTRUCTION

Additionally, ratepayers in Oregon are deeply concerned about any proposal to establish an alternative financing mechanism for WPPSS 3. Oregon is primarily served by two private utilities, each of which have substantial investments in this plant both in absolute terms and in proportion to total corporate equity. If power from WPPSS 3 is indeed not needed by the region, then our private utility ratepayers in Oregon stand to lose two ways: indirectly from increased BPA Priority Firm rates which are the major determinant of our residential and small farm electric rates, and directly through expansion of the rate base to recover the investment for an available but unneeded power plant.

Therefore, a decision to commit further BPA-backed financing of WPPSS 3 must be taken with the utmost care and involve all those concerned, including the ratepayers of the Northwest. The days are past when financial decisions of this magnitude can be made simply on the basis of what various officials perceive to be in our best interests.

A matter of further concern is the economic condition of the Bonneville Power Administration. In considering whether it must assume more direct responsibility for additional financing of WPPSS 3 consequent to S. 1701, BPA is faced with the fact that regional energy economics have forever changed. With the rapid BPA wholesale rate increases in recent years as a result of WPPSS Net Billing costs and other obligations, BPA is now directly competing at the wholesale level with other fuels, particularly natural gas. Thus its traditional captive markets, such as residential space heating and certain types of industrial demand, have become competitive and will be open to fuel substitution for the first time in more than four decades.

The loss of demand certainty in these markets, which have traditionally been served primarily by BPA-marketed electricity, not only lessens the apparent need in the immediate future for WPPSS 3 but is sure to accelerate future rate increases BPA will require to recover its costs. Further, the ratio of fixed to variable or deferrable costs at BPA is extremely high, necessitating rate increases nearly in proportion to demand reduction and perpetuating the cycle of depressed demand and increased kilowatt-hour charges.

In such a situation -- and given an assured surplus of energy over the medium term -- any major financing commitments which do not help stabilize demand must be scrutinized rigorously.

The evidence, including that developed by the Bonneville Power Administration itself in its May 1983 "Analysis of Resource Alternatives," suggests that a construction delay at WPPSS 3 could be a salutary development.

First, it will provide additional time to analyze the cost-effectiveness of completing and operating the plant.

Second, it will provide time to make prudent financing arrangements if a thorough investigation results in a recommendation to complete construction.

Third, and most importantly, it will provide time for the region and the nation to devote to the larger issues of WPPSS.

## 3. WPPSS 3 IS INSEPARABLE FROM THE CRISIS AS A WHOLE

In our view, at this time any strategy for completion of WPPSS 3 is not likely to succeed if the overall WPPSS crisis is not addressed. Hasty or incomplete consideration increases the exposure of all concerned to additional dry hole costs. To the present, each proposal to solve parts of the WPPSS crisis has failed to attract widespread support precisely because of the lack of a comprehensive perspective on the features and complexities of the WPPSS situation.

Some of the features which inexorably tie WPPSS 3 to the rest of the WPPSS plants include:

(1) The involvement, in WPPSS 3, of nearly every utility, public and private, in the region, with conflicting viewpoints and interests based on their participation (or lack thereof), in the other four WPPSS plants.

(2) The litigation over cost sharing with WPPSS Nuclear Project No. 5.

(3) Potential judgements in litigation related to WPPSS 4-5 which conceivably could result in attachment of revenues from the Net Billed Projects to satisfy creditors for 4-5.

(4) Questions concerning the underlying authority of the Participant public utilities in WPPSS 3, in view of court rulings to date in the Chemical I and Springfield III cases.

(5) The underlying authority of BPA with respect to all three Net Billed Projects, particularly as recently addressed by Judge James Redden in his May decision in Springfield III, and the more recent report by the General Accounting Office at Congressman Weaver's request.

(6) Overlapping federal and state jurisdiction, consequent to the involvement of a federal Power Marketing Agency (BPA), and state corporations and municipalities.

## 4. PRIMARY FEATURES OF THE WPPSS CRISIS

If the premise that no one is in a position to propose a comprehensive settlement to the WPPSS crisis is accepted, we need to consider which viewpoints and participants will be essential to address the situation in a forthright manner. A strategic approach to the problem would first recognize the salient features of our current situation:

(1) WPPSS is unique. WPPSS is not, as many observers have noted, alone as a nuclear construction program faced with cost overruns and delays. It does, however, incorporate a unique set of extraordinary

institutional relationships among a federal agency (BPA); a state municipal corporation (WPPSS); and a bewildering array of utilities large and small, public and private. The complexity of this institutional network is also the source of the resistance to simple solutions which do not account for the divergent positions held by these entities. The situation is also singular in its linking of federal Net Billing and take-or-pay agreements; and in the characteristics of the Pacific Northwest electric system.

(2) Public finance implications. What happens to WPPSS will surely have national implications, particularly in the field of municipal finance.

(3) Divergent interest groups. There is a multiplicity of parties involved, and the cost of pursuing litigation at all points is trivial in comparison to the potential monetary judgements involved. Thus, court actions will continue for the foreseeable future, barring the success of an alternative mechanism for resolution of the issues.

(4) BPA authority is in question. The existing authority related to the Net Billed Projects assigned to the Bonneville Power Administration has been in dispute and is currently being clarified and redefined; most notably in the Springfield III lawsuit and the recent report by the General Accounting Office concerning direct financing of WPPSS 2.

(5) Fundamental legal issues. WPPSS-related litigation is raising significant legal issues in the national arena, notably in municipal finance, the authority of Power Marketing Administrations and BPA in particular, federal and state contract law, the general powers of municipal entities, the statute of frauds, and potentially the Bankruptcy Act.

(6) State solution impeded. WPPSS, contrary to the assertions of many, is not merely a state or regional problem and cannot be resolved solely at that level, although the states may well contribute to a timely resolution of the situation.

(7) Difficulty of refinancing. The WPPSS debt, unlike the current international debt crisis, is uniquely resistant to ordinary rescheduling, since most of the debt is held as long term securities that would be difficult to extend under any circumstances.

(8) Bankruptcy not an option. The usual arena for working out significant financial problems, Chapter IX of the Bankruptcy Act, is not available until and unless Congress acts to reinstate the law.

(9) Potential impacts on US taxpayers. The Net Billed Projects represent potential future impacts on the US Treasury in three ways: (a) deferral of payment on the Federal Columbia River hydroelectric plants because payments for the Net Billed Projects have a higher priority; (b) lost tax revenue in the wake of the reduced market value of WPPSS securities; (c) the potential of a direct impact on the Treasury if any of the Net Billed Projects are terminated. In regard to the latter point, some observers have suggested that Judge James Redden's May ruling in the Springfield III case (now on appeal) assigns dry-hole responsibility to BPA for WPPSS 1, 2 and 3; and therefore,

construction costs could not be passed directly to its customers if any or all of the plants are terminated. The alternative source of payment would probably be an appropriation by Congress.

## 5. CONGRESS SHOULD TURN TO A FULL-SCALE INVESTIGATION OF WPPSS

It seems clear to us that serious attention by Congress to the present circumstances is both timely and essential. The WPPSS crisis is insoluble at the state level because of the regional character of the Northwest energy system and the pattern of project participation across six states. It is insoluble in the courts because of the complexity of issues, the multiplicity of parties and the adversarial climate that has been created in that arena.

Absent substantial efforts by Congress to illuminate the myriad aspects of the problem and to provide an arena for settlement, the Pacific Northwest and other interested parties are facing a decade or more of litigation involving thousands of direct litigants, tens of millions of documents, hundreds of millions of dollars in legal costs, and potential settlements in the billions of dollars.

This path inexorably leads our region into an extended period of uncertainty which is most unwelcome as we struggle to consolidate the regional economic recovery and build strength, diversity and stability for the future. The WPPSS litigation throws into doubt the efficacy of individual efforts by Northwest citizens to build our communities, and adds substantial complexity to the investment decisions of private enterprise and government alike.

We do not believe that a "solution" proposed at this time will be acceptable to the affected parties. We do believe that Congress is correct to take an interest in this matter, as it vitally affects many important areas within its purview. What we seek is a forum for making significant advances in defining and understanding the issues at hand. Neither the states nor the courts currently offer an arena for taking these steps.

Therefore, while we respectfully suggest S. 1701 is deficient as to both timing and merit, we also believe that the Congress might profitably employ its good offices to investigate thoroughly the many aspects and contentions of the WPPSS crisis. Congress and the region should take advantage of our current situation, in which a suspension of WPPSS 3 construction will not materially endanger the energy system or the economy of the region and may indeed pave the way for a more prudent decision.

We therefore encourage the members of this Committee to consider expansion of efforts concerning WPPSS and orient those efforts toward a different near-term objective -- that of a full scale Congressional investigation of WPPSS. To produce useful results leading toward a solution to the crisis, such an effort would incorporate the following characteristics:

(1) National perspective. The investigation would be national in scope, with a regional focus; rather than trying to categorize the crisis as purely a regional issue.

(2) Carefully planned. It would be preceded by preparation of a logical and strategic plan of development, specific objectives to be achieved and a firm deadline for completion.

(3) Thorough. It would be deliberative, thorough and comprehensive in its acquisition of data and testimony.

(4) Accessible. It would be open to the involvement of all who have an interest in the subject.

There are a number of approaches that Congress might take to initiate a full investigation of WPPSS. It may perhaps form a Select or Special Committee, or alternatively a national commission. But overall, we believe that Congress can best serve the interests of the region and the nation at this time by developing a process of analysis and negotiation. This strategy, we feel, has the greatest probability of leading to an early settlement of the Gordian complexity of WPPSS.

We cannot predict whether the results of a full and thorough Congressional investigation may lead directly to a legislative solution or, more modestly, to the creation of a forum for resolution of an apparently insoluble crisis (as with the creation of the US Railway Association to address the collapse of the Penn Central Railroad; or the evolution of the Municipal Assistance Corporation from Congressional efforts to resolve the financial crisis of New York City). Most of all, it is important that Congress not be perceived as forcing a solution on the region, as the parties involved have shown more than sufficient willingness and resources to resist an imposed settlement.

The key quality missing at present from efforts to address the WPPSS crisis is true leadership, which looks beyond the superficial issues, finds common ground among adversaries, promotes cooperation over coercion, and thus reaches an early and equitable conclusion to a pressing problem. That is the kind of leadership the Federal Government offered to the Pacific Northwest in the 1930s, and that is the kind of assistance we turn to you for once again.

Thank you for your interest in my comments. It has been a privelege to present them to you. Speaking on behalf of the Solar Oregon Lobby, we pledge to assist in resolving the extraordinary crisis now confronting us.

The CHAIRMAN. Thank you. Next is Benita Helseth.

## STATEMENT OF BENITA HELSETH, SPOKESPERSON, WASHINGTON STATE LEAGUE OF WOMEN VOTERS

Ms. HELSETH. I am Benita Helseth, of Snohomish County, speaking for the League of Women Voters of the State of Washington.

The League of Women Voters at the National, State, and local levels has actively promoted the wise and efficient use of all our energy resources. In cooperation with other organziations and individuals, we presented testimony to the Northwest Power Planning Council during the development of the Northwest conservation and electric power plan. Because of our priority interest in conservation, the league was very pleased to see the adopted plan place primary emphasis on conservation programs as the most cost-effective way of meeting the power needs of the future. The plan, as you know, puts alternative forms of generation such as small hydro and cogeneration in second place. We find Washington Public Power Supply System plants 1, 2, and 3 far down at the end of the list for supplying needed power during the life of the plan only in a high or medium growth scenario. This particular inclusion was one of the most controversial of the council's proposals. Because of that controversy, the council has recently announced that a far more detailed study of the future need for power from the net-billed plants will be conducted.

S. 1701 proposes to commit ratepayers' dollars for either BPA or another legislatively created public agency backed by BPA guarantees. The agency would borrow or sell bonds to complete WPPSS plant No. 3. The only cost-effectiveness comparison mentioned in the bill is between other forms of generation with no consideration, or very little, given to conservation which is the heart of the Northwest power plan. There is little doubt that plant No. 2 will be completed without S. 1701 and without any present need for that power. This only exacerbates BPA's problem with the lack of recovery of the costs of surplus power.

To pass S. 1701 in order to complete plant No. 3 for the benefit of four private utilities is folly. To suppose the ratepayers of this region need another public agency debt or another increase in BPA debt to pay for a facility whose power will not be needed for several years makes no economic sense at all.

National population growth is now less than 1 percent a year; the region has a large power surplus; and no market currently exists for high-priced thermal power without further investment in transmission lines. The effects of conservation projects and the long- and short-term impacts of increasing power costs are only beginning to be felt. Because of these and other factors, we will not need power from plant No. 3 until long past its proposed completion date, if ever. As we improve our building codes and implement them, retrofit existing buildings and replace existing inefficient appliances and industrial processes, the need for power from plant No. 3 will be pushed ever further into the future.

We do not need S. 1701 to increase the supply before the demand is known. We do need a regional commitment to the principles of the power plan and, to that end, the League of Women Voters will direct its efforts. We oppose the proposed legislation, S. 1701.

## STATEMENT OF JOE RYAN

Mr. RYAN. Mr. Chairman, I would like to make a correction for the record. I am not here representing the Hanford Oversight Committee. That's a new group and one of its members was out of town and unable to OK the testimony.

I have very brief comments on my own behalf. I would like to address those comments to you, accountability, and cost effectiveness. I think this last 3 or 4 years with the rise of ratepayer movements in the WPPSS folly has shown that we do not need a son of WPPSS, a super-Federal agency that is even further from the people, even further from the ratepayers.

The people of Washington State have spoken very clearly. What they want is direct vote, direct say on these plants. So I commend you, the solution of advisory ballots on WPPSS 3, plant 3. I think the facts should be out before the public.

I hear investor-owned utilities say they are trying to protect their ratepayers, but I don't see a flood of their ratepayers saying yes, thank you, build these plants, we want them. I think to find out what the people want you need to get an advisory ballot from the people, nonbinding.

My second point is cost effectiveness. Last fall the WPPSS consultant did an evaluation of WPPSS plant 3. As you gentlemen know, that cost-effectiveness study was suppressed, not released to the public. A new cost-effectiveness study came out, which I enjoyed very much as a reader of science fiction, but as a ratepayer, I found it appalling. The study was skewed, very unrealistic plant operating capacity, plant life, and if you change those numbers around you can see that conservation is a very cost-effective option to plant 3.

So I suggest to you that, look at the regional power planning council consultant's study and then look at the ratepayers' groups. We are the ones that are directly affected. We have our own consultants as well qualified as those on the power planning council. And then get the information out to the people and have an advisory ballot.

Thank you very much.

The CHAIRMAN. Thank you very much.

I assume that each of you have at one time or another looked at the studies that the Northwest Power Planning Council have made. Am I correct in that?

Mr. RYAN. Yes.

The CHAIRMAN. Do you generally give credibility or assign them to the same trash heap as BPA and things?

Ms. HELSETH. I think the fact that they are making another detailed study indicates that, in fact, at that time I recall that there were many questions in their minds when they came up with those figures and there were different assumptions that could be used and the reason then that they were going to more detailed studies is they had questions about that part of the plan.

The CHAIRMAN. I understand that. You are familiar with their studies. You have, well, you indicated that they may have had questions. You didn't indicate whether you have confidence in what they say.

Ms. HELSETH. I will have more confidence when we make a detailed study.

Mr. HEUTTE. I am familiar with the council's work and have followed it. I have very high confidence in their competence. I believe the council has made an effort to get the state-of-the-art and have consulted wherever possible with the utilities of Bonneville, with WPPSS, and with others interested in the region. I may or may not agree with some of their assumptions, particularly plant factors and lifetime is considerably debatable, which should be brought out in the open. But the council has considered those areas. So I would have to say, quite frankly, you have asked several people today about the cost of delay on WPPSS 3. I would have to say our group has not because we don't have the resources and we do have confidence that the council's analysis will be objective and thorough.

The CHAIRMAN. Mr. Ryan.

Mr. RYAN. I haven't read the power plan.

The CHAIRMAN. The reason I ask that is we get all kinds of advice. Lots of it is worth what we pay for it, which is nothing. Sometimes we have to make a judgment as to which is the better advice I can't help but be persuaded, at least in part, by what the council stated in their testimony before the House committee, and I point to that because presumably that is more objective than testimony before my committee; and they were looking at the impact of changes in WPPSS 1, 2, and 3 schedules on the Northwest power plan as developed by the council. I will read a part of the testimony presented to the House committee. And, in fairness, I should read the whole thing. Taking any part of it out of context skews the impact of it slightly, but I apoligize for that in advance. But this is from their testimony:

> In all cases evaluated by the Council, the three WPPSS projects, 1, 2, 3 were assumed to be completed and operated. This assumption was made because under the Regional Power Act these resources were specifically acquired and therefore, not new resources for inclusion in the plan. Nevertheless, the Council did evaluate the cost of completing each of the WPPSS projects and compared these costs with the cost estimates available for new federal generation. The conclusions are rather dramatic.
>
> When estimated on a consistent basis in constant 1980 dollars, costs expended as of December 1983, the costs to complete three WPPSS plants expressed in levelized costs of energy are $.03 per kilowatt hour for Plant 1, $.01.8 per kilowatt hour for Plant 2, $.02.5 for Plant 3. All of these costs are significantly lower than the estimated $.04.7 per kilowatt hour for a new coal plant. The costs to complete these three plants is also cheaper than all of the cogeneration and some of the hydroelectric power and conservation included in the Council's plan. The Council's plan included in the high load case an additional 5,100 megawatts of conservation, 920 megawatts of new hydro, 500 megawatts of conservation, 1,000 megawatts of combustion turbines, and construction of nine new 356 megawatt coal units in order to balance the forecast of resource requirements over the next 20 years. In the medium-high forecast, three coal units are needed to supplement conservation, hydro power, and cogeneration. There was no additional thermal needed in either the medium load or low load forecast by the Council.

They did go on to say that they wanted to analyze it further and they intended to and they are in the midst of making that evaluation. But I thought it might be useful to include at some point in this record some of the background against which we are seeking to find some answers to these questions because today we have heard a great deal of conflict. Lots of people have assumed that the committee was acting without any guidance at all with respect to S. 1701 and actions taken in the Appropriations Committee. I just wanted to get this on the record that there are some facts already in the record that indicate we ought to be doing something like that, facts before this hearing today that indicate that failure to act now will cost the ratepayers of this region more in their rates in the future than taking action now would. Of course, that's not definitive and not final and we are looking for further information, hence, this hearing today and testimony of all these witnesses who have taken the time and trouble to present testimony and come here and present it.

I appreciate your testimony. Sometimes we wish we could all sit together all of the time and hear all of the conversations we all have with all parties. Perhaps we would understand one another better with respect to what our respective goals may be. But I do appreciate the time that each of you has taken in preparing testimony and coming here today to present it to us. It's helpful to the committee.

Thank you very much.

Panel 11. Mr. Winsor.

## STATEMENT OF GALLAN WINSOR, CONSULTING ENGINEER, E. J. CROSBY & ASSOCIATES

Mr. Winsor. I am G. H. Winsor, a consulting engineer with E. J. Crosby & Associates.

My 0.033 millenia of experience of handling reactor fuel told me that the WPPSS reactors, when I first saw them in 1976, were an excellent idea that had gone astray. WNP-2 could have been completed by an expert staff in 6 months, putting the only direct-cycle BWR on line to pay for the rest. The others were an odd mix of designs which were wrong in the following ways:

A—No industry, homes, or agriculture nestled up to them to utilize the condenser cooling heat. Instead, they had cooling towers to dump over half the heat to the air—with the Columbia River nearby.

B—They had zero-release containments, which required vertically tubed steam generators, which cannot be blown down.

C—Lack of standardization required at least five times the cost on repair parts, operator training, similator facilities, et cetera.

Zero-release containment cannot be justified in the first place, but when moving regulatory standards were used as an excuse to redo and delay without consideration for the effect upon cost-efficiency, I knew that no one associated with the projects understood the energy level of things.

The sun deposits 1 kilowatt of electromagnetic energy on 1 square meter of surface at noonday. This is $3.6 \times 10^6$ joules and is an acceptable amount of dosage for EMUR of this combination of wavelengths and frequencies. Those who regulate the construction and operation of reactors would have us believe that our ability to control exposure to EMUR at $1 \times 10^{-5}$ joules is important, and argue about the precision and accuracy of the measurement. Is 1 roentgen equal to $0.93 \times 10^{-5}$ or is $0.87 \times 10^{-5}$ joules exact? These same regulators have said that 60 mR/year is the only acceptable offsite dose from a nuclear facility, and further, that 0.006 mR/year is too much for the Clinton IL reactor. The latter value is roughly $3 \times 10^{18}$ times smaller than our value for unity, an acceptable dose of EMUR from the sun in 1 hour. Those who insist that 0.006 mR/year is too much don't even understand rounding off numbers to two or three significant figures. They think that a billionth of a billionth of a real number is significant.

The public doesn't understand that accidental releases of excess fission energy only killed eight persons in six of every 34 events, three of which were killed by steam (SL-1). LA-3611 indicates that a millisecond burst of 800 R can be survived with only air for shielding between the operator and the event.

The medical profession routinely exposes hundreds of thousands of people to greater than threshold limiting value doses, if delivered acutely. They know that 800 R in milliseconds can be tolerated and that 7,000 R in 5 weeks will make ill people better.

By what authority are industrial radiation workers limited to doses that are infinitesimally smaller, thus infinitely increasing the cost of building and operating nuclear power generating facilities?

I feel that the National Council of Radiation Protection and Measurements [MCRP] has failed the trust placed in it by the Congress in 1964 to serve the public interest.

The CHAIRMAN. Thank you very much.

Mr. Colton.

## STATEMENT OF LARRY COLTON, CONSULTING ENGINEER, E. J. CROSBY & ASSOCIATES

Mr. Colton. I am Larry Colton. It's been interesting to listen today to the bankers, the ratepayers, and the irate payers. And I share many of the views that Mr. Winsor has stated. I worked for 30 years about equally divided between aerospace and nuclear. I remember my concern about nuclear power when the submarine *Thresher* was lost at sea with 129 hands on board. It took many years to learn that this tragedy was the result of a safety procedure which caused its reactor to shut down during an ascent at a critical angle. The SSN-593 slid stern first, and without power, to its destruction. Few people today realize that an incorrect safety procedure, and not radiation hazards, was the cause of this accident.

Fear of plutonium dioxide fuel has been instilled in the masses. In actuality, an ounce of this material may safely move through the human GI tract, since it requires 10 molar nitric acid to dissolve. On the other hand, ingestion of an ounce of pure, white caffeine will surely kill you. Caffeine can be purchased from the druggist without prescription; 280 0.1 gram tablets are greater than a lethal dose.

Studies conducted by the U.S. Department of Agriculture show that irradiating foods to megarad doses is an effective shelf-life extender for fresh-packed seafood, and a deinfestor for fruits and grains. This eliminates the necessity for adding chemical pollutants. If all foods consumed were irradiated, it would add less than 0.2 percent to the normal background radiation, of the consumer. Why has the cloud of fear continued to hover over this worthy industry?

Uranium milltailings and formerly utilized sites where source material for the Manhattan project were processed seem to be targeted for oblivion. Could it be that their sin was in making a contribution to our national war effort? The Vitro tailings pile in Salt Lake City seems to be a prime example. In this case vanadium, a valuable metal, was first extracted for alloying in steels. Uranium was next extracted and should have rendered the residual acceptably free of radioactivity. Quality studies show that the level of activity is now less than one-third of 1 percent of mineable uranium ore, and less than one-tenth of the minimum level that can be defined as radioactive. Removal of these tailings at taxpayer's expense, for the benefaction of adjacent landowners is scheduled to begin this fall. It is an example of gross misuse of public funds.

Reusable uranium fuel—RUF—contains millions of dollars worth of fission products and transmuted metals. The cost of recovery should appropriately be borne by the ultimate user at the time separation becomes economically attractive again. At the present, there are more than eight dedicated facilities having capability to remotely handle and securely dry-store above the water table the national inventory of this valuable resource through the turn of the century. To deny the use of existing facilities and/or to expend public funds in a proliferation of makework projects is inexcusable. Industry has demonstrated its competence in handling RUF for the past 40 years. Therefore, the Federal Government has no legitimate excuse for confiscating RUF ownership and control at this time. Further, government has yet to prove its ability to compete economically with private industry, except in the area of regulating.

I do appreciate the remarks that you read into the record a few moments ago. I am very much in favor of the nuclear option and I think that it's important that we recognize that there are other costs involved such as the costs of unemployment and that we recognize that we are not dealing in 1980 dollars, but that facility value will increase as well as revenues will increase through the completion of these plants.

Thank you.

The CHAIRMAN. Thank you.

Mark Calney, Northwest regional coordinator of the National Democratic Policy Committee.

## STATEMENT OF MARK CALNEY, NORTHWEST REGIONAL COORDINATOR, NATIONAL DEMOCRATIC POLICY COMMITTEE

Mr. CALNEY. I am here on behalf of the National Democratic Policy Committee. At this time, Mr. Chairman, I would like to enter my testimony and background material, if I could, into the record.

We, the National Democratic Policy Committee, would like to go on record in full support of S. 1701. Further, we think that we should include legislation to insure that all five WPPSS plants are completed as soon as possible. To shut down a power supply system which would be the largest megawattage supplier of electricity in the Nation would be a tragedy. It would have the same affect as if it were a strategic bombing survey of our electrical grid.

The only possible party that could benefit from such an action would be, in fact, the present leadership of the Soviet Union, and I think it is paramount to keep in mind in discussing this issue the framework in which it takes place. The United States is presently facing a strategic crisis of paramount interest. What I am going to underline is what Senator Jackson said last week after the tragic massacre of 269 innocent civilians on the Korean airliner. He underscored that not only was this a tragedy, but total disregard for the lives of civilization and disregard for human lives. This is not merely just a problem of communism, but stretches back centuries in Russia. This parallels a strategic analysis we put forward several months ago, that leadership of the Soviet Union was operating on a 500-year-old myth called the third and final Roman Empire; that is that Moscow, if you will, will become the world capital of this last final empire.

I would like to relate to you the discussions that we have had in the last 48 hours with the top defense strategists in Europe. This incident that happened over Soviet airspace north of Japan may not be the only isolated incident. In fact, there may be more to come. In this light, we must put forward a policy nationally to answer this strategic crisis. President Reagan put forward such a policy on March 23 to commit the United States a new defense doctrine, the development of laser beam ABM defense systems. This is the means out of this strategic defense crisis. In fact, if we are to get out of this crisis and build these big weapons, it is going to require the magnitude of industrialization; it is going to require the kind of energy that WPPSS is going to provide.

I dread to think what would have occurred in this country after December 1941 if we had not had the power from the Grand Coulee Dam built under the guidance of the Federal Government. We would not have had the power to build the Boeing complex and we would not have had the power to build the aluminum processing plants. We would not have had the power to build the Hanford-Manhattan sites. If we look at the two major causes for the disaster of WPPSS, No. 1, we have the serious high interest rate of hold-over; we look at plants 4 and 5 and see that the result of this policy has led to over $8 billion of the $11 billion deficit of these two plants. This has caused an overall collapse in our economy, and I think if we are going to judge so-called gross perimeters in needs of electricity, we must look at what has happened to the decline in construction of related industry to what is necessary to gear up our economy once again.

No. 2, we have had the delaying tactics of the environmentalists which, as I look around at the irate ratepayers when the movement started, I happened to see some of the same leaders who led the demonstration against the construction of nuclear powerplants.

Most proiminent was the National Resources of Defense Council, and I would like to just read one quote in relating the attitude and strategy of this environmentalist organization. This was on the eve of the passage of the—rather, the decision of the Washington State Supreme Court back in June on WPPSS. In an interview, Ralph Cavanagh told an interviewer that,

> This decision will mean that no nuclear plants will be placed in the United States ever again. This means that at least 48 out of the 91 nuclear plants now under construction will never be built.

He goes on to comment on the recently released plan by the Northwest Planning Council released last May where he says, "We practically wrote it. This plan brings an end to smokestack industry." This is a situation, gentlemen, which I don't think we can allow to occur. If we are going to talk about conservation, let us look at the people who adopted the concept originally, Lazar Carno that conservation is not simply not using energy but conservation is the application of continually new methods of technology that could do the same amount of work with less energy more efficiently.

But it was through the introduction of new technology that we accomplished conservation. This is, in fact, the historic meaning of the term. If we are truly concerned with conservation, we must bring on line the new kinds of technology for energy generation to cheapen the cost so we can insure a continuing development of technology. The beam weapon program that I mentioned earlier is not merely a new defense strategy; it would open up a new era of laser/plasma based economy that would be equivalent to the introduction of electricity. I think this is what Soviets fear most, that the U.S. will reaffirm its commitments to industrial and technological progress. I might add that conservation in terms of lack of producing nuclear power electrical generation since the peace programs began in the 1950's has been calculated to be the lack of production of these plants and exports to the third world that has resulted in the death of over 100 million people who did not have adequate supplies of electricity to meet their needs. That's the consequences of the kind of conservation that I have heard about today by certain people's testimony.

I would like to add that the United States has an imperative, moral imperative, to use its technology, to use what we have, to turn around the economic crisis and the strategic crisis. I would like to offer the services of this organization, particularly it's computer economic model which has projected the necessity of a 10-percent electrical growth rate in energy production in the immediate term. The plan put forward by the Northwest Planning Commission does not meet the requirements.

Thank you.

[The prepared statement of Mr. Calney follows:]

# NATIONAL DEMOCRATIC POLICY COMMITTEE TESTIMONY

for Congressional Hearing on WPPSS

(Part I)

Sept. 9, 1983

Seattle, WA

It is vital to U.S. economic and national security interests that appropriate federal action be taken to ensure the immediate completion of the Washington Public Power Supply System (WPPSS) nuclear power complex which, when completed, is to become the largest megawattage supplier of electricity in the country. The effect of not undertaking such action would constitute a major destruction of our nation's electricity production grid with the same efficiency as a Strategic Bombing Survey bombing attack. The other two of the three key components of the U.S. industrial strength -- manufacturing and transportation -- are already in ruins. The only conceivable party to benefit from such a travesty is the present leadership of the Soviet Union who, throught the Soviet KGB, is far from playing the role of an indifferent spectator in the ongoing tragedy of WPPSS.

The United States is now in a strategic crisis of historic precidence. This was dramatically exhibited last week by the barbaric action of the Soviet Union in their calculated coldblooded murder of 269 innocent Korean airline passengers. The late Senator Henry Jackson, during his last press conference on Sept. 1, 1983, correctly identified the nature of the Soviet's world outlook and disregard for human life. Paralleling the strategic analysis put forward several months ago by the National Democratic Policy Committee's Advisory Board Chairman, Lyndon H. LaRouche, that the Soviet leaders are operating on a 500 year old Russian Orthodox Church myth that Moscow will become the capital of the "Third and Final Roman Empire," Sen. Jackson stated that the Korean airline massacre "is inconsistent to all rules that apply to human beings on this earth. It goes back centuries...This mentality has nothing to do with communism alone. It is Russian history."

If the U.S. is to extricate itself from this strategic crisis we must aggressively implement President Reagan's new strategic doctrine, the development of laser beam ABM defense systems. And, if the United States is going to develop and deploy this necessary technology which can render nuclear warfare obsolete and revolutionize industry within 5 years (as recently outlined by Dr. Edward Teller at the Erice Conference in Sicily), it will require a major mobilization of our economy. This cannot possibly be done if our electricity producing grid is allowed to be destroyed. Imagine where our nation would have been after the bombing of Pearl Harbor if we had not been constructing such infrastructure as the Grand Coulee Dam which supplied the power for aluminium processing and the aircraft industry, as well as, the Manhattan Project at Hanford, Washington.

## The KGB's Assets Shutting Down WPPSS

The Soviet KGB is involved in the conspiracy to shut down WPPSS which invloves the U.S. enviromentalist movement; Chemical Bank of New York; and members of Congress and their wives.

The conspiracy was launched several years ago, when the National Resources Defense Council, which is the "greenie" side of the U.S. nuclear freeze movement, joined by the Seattle Post-Intelligencer and several Lane Kirkland-controlled AFL-CIO unions attempted to shut down the five WPPSS nuclear power plants. This effort succeeded on June 15 when the Washington State Supreme Court made its ruling: 88 utility companies that had gauranteed $2.3 billion worth of bonds to allow WPPSS to construct plant Units 4 and 5 were no longer responsible for the payment of interest and principal on those bonds.

In late July, WPPSS, unable to meet monthly interest payments on the Units 4 and 5 bonds, was declared in default by Chemical Bank, the trustee for the Units 4 and 5 bondholders. This represents the largest municipal bankruptcy in American history! On August 3, two weeks after declaring WPPSS in default, Chemical Bank launched one of the largest suits in the history of the United States, charging WPPSS and 500 other parties in the utility and nuclear plant construction industry with fraud, mispresentation, and negligence. This financial Three Mile Island which jeopardizes the future construction of nuclear power plants (or comparable power plants) and also the viability of the municipal bond market to finance future major infrastructure projects.

The attorney for Chemical's suit is one Michael Mines. Mines it turns out, is on the executive board of "Target Seattle: Soviet Realities," a 'peace' organization that will submerge Seattle in events celebrating Russian "blood and soil" culture for five days between the end of October and the beginning of November of this year. The featured speakers at Target Seattle are Georgii Arbatov of Moscow's U.S.A.-Canada Institute, and Marcus Raskin, one of the directors of the pro-terrorist Washington, D.C.-based Institute for Policy Studies, which helped sponsor the 33-city tour of top-ranking KGB officials (including General Mikhail A. Milshtein of the GRU and Fyodor Burlatski, former aide-de-camp to Yuri Andropov and now editor for Literaturnaya Gazeta, who has repeated published attacks against President Reagan and Lyndon LaRouche for their promotion of beam weapon defense systems) through the United States earlier this year.

The enviromentalist charge to stop WPPSS has been spearheaded by the Natural Resources Defense Council (NRDC). Ralph Cavanagh, the West Coast coordinator of NRDC, which by his own account played a leading role in securing the state supreme court ruling, boasted to a reporter on June 21, "This decision will mean that no new nuclear orders will be placed in the U.S. ever again...This means that at least 48 out of 91 U.S. nuclear plants now under construction will never be built." Concerning the may report issued by the Northwest Planning Council, chaired by Dan Evans, entitled "Northwest Conservation and Electric Power Plan," Cavanagh states,"We practically wrote it...This plan brings an end to smokestack industry."

The Natural Resources Defense Council, which is financed by the Rockefeller family, was jointly founded by the Aspen Institute and Harlan Cleveland. Cleveland hosted the Soviet KGB and Russian Orthodox Church delegates when it made its most prominent stop on it 33-city nuclear freeze organizing tour (referred to above) in Minneapolis, Minnesota May 24.

In addition, Seattle Post-Intelligencer reporter Joel Connelly, who led the media assault on WPPSS for five years, is described by the NDPC's Cavanagh as "one of my close friends."

Senator McClure's amendment to the 1984 funding bill for the Department of Interior asking for emergency money to save WPPSS, which the National Democratic Policy Committee supports, came under a filibuster attack when it was first proposed in the U.S. Congress. It turns out that the wives of the anti-WPPSS leaders who led that charge -- Sens. Donald Riegle, Joh Heinz, Howard Metzenbaum and Reps. James Weaver and Don Bonker -- are leaders of a nuclear freeze "peace" group called Peace Links. Sen. Jeremiah Denton reported on the floor of the Seante earlier this year that two of the organizations on the national advisory council of Peace Links -- the Women's International League for Peace and Freedon and Women's Strike for Peace-- have been officially designated as Soviet front groups by the U.S. State Department. The wives of Target Seattle; Soviet Realities Advisory Committee members: Reps. Mike Lowry, Al Swift, Don Bonker, Rod Chandler, and Norm Dicks are also members of Peace Links.

The point to be made is simple. The United States cannot defend itself militarily and sustain a laser/plasma-based economy without a vast expansion of energy supplies; at the moment this is a greater bottleneck than any faced during the World War II mobilization. Such proposals as those of the Norhtwest Planning Council which call for slashing energy production and promoting "conservation" reflect something worse than an absolute ignorance of American history and economic science. In practice it functions as a Russian KGB internal operation to effectively dismantle crucial U.S. infrastructure. It is, in fact, the self-centered Malthusian concept of "conservation" which is preventing us from solving the causes of war -- the lack of industrial development. The Northwest should be utilizing its tremendous potential to participate in the development of the Pacific Rim. This can only be done, according to the most competent economic forecasts, by an annual growth rate of at least 10% in electrical generation. WPPSS is indispensable to achieving our nation's economic and national security and demands bi-partisan cooperation.

The National Democratic Policy Committee, therefore, fully supports the measures proposed by Sen. James McClure to ensure federal funding is provided to complete the WPPSS units.

**EIR National**

NATIONAL DEMOCRATIC POLICY COMMITTEE TESTIMONY

for Congressional Hearing on WPPSS

(Part II - Background Material)

Sept. 9, 1983

Seattle, WA

# Anti-nuclear ruling threatens national security

by Richard Freeman

On June 15, 1983, a conspiracy of environmentalists succeeded in winning a state supreme court ruling that will ensure that Washington Public Power Supply System (WPPSS), the nation's largest supplier of electricity to utilities, will default on $2.2 billion worth of bonds, unsettling the entire tax-exempt bond market and threatening disruptive power shortages for the industrial Northwest and the nation.

Washington Supreme Court ruled that the 88 utilities that had legally contracted to purchase power from WPPSS, and to pay interest and principal on the bonds WPPSS floated to construct nuclear units #4 and #5, should not have to continue payments on the bonds. The two plants were mothballed in June 1981, during the height of the environmentalist/Wall Street uproar over "cost-overruns" at nuclear plants (themselves due to environmentalist-caused delays and Paul Volcker's interest rates). The court said that the 88 utilities had exceeded their authority in entering into the original "tax and pay" agreement with WPPSS, Washington state's power authority, which has been marketing electricity to Washington, Oregon, Idaho, and Montana since 1957.

Pressure for the ruling came from the Natural Resources Defense Council, the Sierra Club, and the Friends of the Earth, joined by the news media, Lane Kirkland-controlled labor unions, and prominent Wall Street investment firms, led by Treasury Secretary Donald Regan's alma mater, Merrill Lynch.

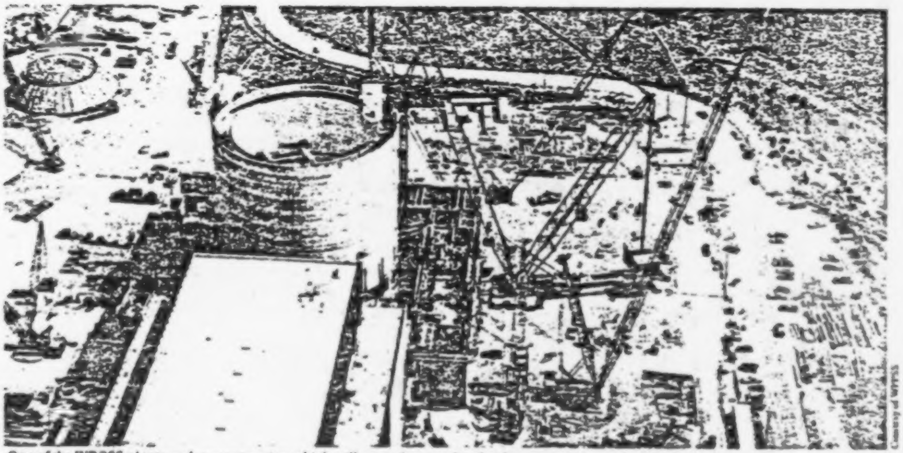
## Strategic stakes

The June 15 decision represents a top national security issue, with implications for the economic and military well-being of the United States. The decision will accelerate what experts warned would be a 1984 timetable for power shortages and blackouts. Most important, as a study by the LaRouche-Riemann econometric model team has demonstrated, the United States cannot defend itself militarily without a vast expansion of energy supplies: at the moment this is a greater bottleneck than any faced during the World War II military mobilization. Adequate defense requires highly electricity-intensive lasers, plasma beams, and so forth.

The ruling will also knock out the aluminum industry of the Northwest, which consumes 40 percent of all industrial electricity in the region. Aluminum is indispensable for the military goods produced by Boeing, McDonnell Douglas, and other West Coast-based military contractors.

The collapse of the U.S. nuclear industry which this ruling will accomplish is viewed by the Soviet Union as a top strategic factor. At the same time that the Washington state Supreme Court was handing down this ruling, Andrei Gromyko, the Soviet foreign minister and a member of the Communist Party Politburo, was telling that party's special central committee meeting that the anti-nuclear movement must be mobilized and joined with the peace movement to disarm the United States. Gromyko said, "The anti-nuclear and anti-war movement that has arisen in the West is a kind of popular referendum."

While Gromyko spoke, scores of Russian Orthodox Church officials and Soviet KGB officers were touring 33 American cities denouncing President Reagan's historic March 23 call for the United States to adopt a directed energy beam defense system and a superpower agreement for a strategic doctrine of Mutually Assured Survival. Some of the same environmental-peace groups sponsoring the Russian



*One of the WPPSS plants under construction which will never be completed unless emergency action is taken.*

Courtesy of WPPSS

delegations are involved in provoking the Washington state decision.

The Washington Supreme Court ruling stemmed from a suit brought by New York's Chemical Bank, trustee for the units #4 and #5 bondholders, when it became clear that WPPSS would not be able meet its regular payments. Pressure for a ruling seems to have been stepped up in May, when WPPSS missed a $15 million payment into a reserve fund at Chemical Bank for the bond payments. Now that the 88 northwestern utilities have been freed from their obligation of having to guarantee and make payments on the bonds, WPPSS' revenue stream is sure to dry up, making default on the bonds inevitable. There is now speculation in the financial community that WPPSS may go into Chapter 9 bankruptcy, and that Chemical Bank will try to get first lien for the bondholders.

The inevitability of default shook the U.S. bond market, and all municipal and state bonds prices fell $10 to $20 per $1,000 face value of the bonds, the day after the WPPSS decision was announced. The bonds of WPPSS, covering the mothballed units #4 and #5, fell to less than 20 cents on the dollar; other WPPSS bonds fell to less than 50 percent of their value; bonds issued by any agency of the state of Washington plummeted. One source suggested that $50 billion worth of utililty, water supply, sewage, and other bonds, constructed on a similar "take and pay" contract basis as the WPPSS bonds, might be challenged in the courts, destroying credibility in the U.S. state and municipal bond market.

The environmentalist-"peace" forces that forced this court decision crowed that this was an "historic, unprecedented victory," and concluded that the ruling would devastate the nuclear power industry and paralyze the U.S. economy.

Ralph Cavanagh, the West Coast coordinator of the Natural Resources Defense Council (NRDC), which by his own account played a leading role in securing the state supreme court ruling, boasted to a reporter June 21, "This decision will mean that no new nuclear orders will be placed in the U.S. ever again. *No new nuclear plants will be built in the U.S. ever*. . . . This is the worst day ever for the U.S. utilities. This decision means that at least 48 out of 91 U.S. nuclear plants now under construction will never be built," and that as many as 25 to 30 of the remaining 91 will likely not be built.

The Electric Power Reliability Council reported last month that even if all the nuclear plants under construction in America were to be built, America would face power shortages and blackouts by 1984. A LaRouche-Riemann econometric model study, "A Beam Weapon Based Recovery for the U.S.," concluded that U.S. electricity generating capacity would have to increase sixfold over the next 10 years if the economy were to have the requisite energy supply to recover. The Washington Supreme Court decision means that the United States will experience blackouts the moment it actually increases real capital goods output. Any attempt at putting America back to work will be impossible: the United States will undergo, as the LaRouche-Riemann model team described it, a "thermodynamic heat death."

## Environmentalist subversion

The move to destroy the WPPSS system and the U.S. power grid was launched in Washington and the three other states served by the WPPSS system—Oregon, Idaho, and

Montana—by a coalition of forces whose most important components are:

- The environmentalists: the **Natural Resources Defense Council** (NRDC), the **Sierra Club**, and the **Friends of the Earth** and the coalition front for these groups in Washington, the **Northwest Conservation Act Coalition**. According to Mark Reis, the director of the coalition, "The Washington Supreme Court ruling represents a victory for what we've doing for the last 10 years. Our coalition's program won out."
- The European oligarchy-controlled financial groups, including **Drexel Burnham Lambert and Merrill Lynch**, as well as the bond rating services, **Moody's and Standard and Poor's**. These groups undermined the WPPSS bond ratings over a period of years.
- Lane Kirkland-controlled unions in the Northwest, including the **Retail Clerks**, the **Service Employees Union**, the **Communications Workers of America**, and the **Oregon Federation of Teachers**.
- The nation's news media, led by the ***Washington Post*** and the ***Seattle Post-Intelligencer***.

The Natural Resources Defense Council, which is financed by the Rockefeller family, was jointly founded by the Aspen Institute and Harlan Cleveland. Cleveland recently hosted the Soviet KGB and Russian Orthodox Church delegation when it made its most prominent stop on its 33-city nuclear freeze organizing tour in Minneapolis, Minnesota May 24. *Seattle Post-Intelligencer* reporter Joel Connelly, who led the media assault on WPPSS for five years, is described by NRDC West Coast coordinator Ralph Cavanagh as "one of my very close friends."

## The assault

WPPSS was targeted because the Northwest is the most energy intensive region in the nation. While, in 1982, the nation consumed 70.8 quads of all types of energy, of which electricity production took 23.5 quads, or 33 percent, in the Northwest, of all energy use, electricity constitutes more than 40 percent. Of total electricity in the United States, about 13.5 percent is supplied by nuclear power.

Power for the Northwest region started to be expanded in the 1930s, when engineers achieved their dream of harnessing the mighty Columbia River. The first great achievement of this effort was the construction of the Grand Coulee Dam. A federal power authority, the Bonneville Power Administration (BPA), was created to supervise the region's power provision. By the early 1970s, more than 50 dams were in place on the Columbia River and its tributaries.

As the Columbia was harnessed, use of electricity spiraled, and its price fell, making electricity in the Northwest to this day the cheapest in any region of the country. In 1968, the Bonneville Power Administration designed a plan to carry out the same historic rate of energy growth of the previous 30-year span—7.5 percent growth per year—into the 21st century. The regionwide power plan for Washington, Oregon, Idaho, and Montana called for the construction of 20 nuclear reactors and 40 coal-fired power plants by the end of the century.

The agency selected to do part of this job was WPPSS, which was formed by the Washington state legislature in 1957. In utility jargon, WPPSS is known as a "joint operating agency." Its membership consists of 19 public utility districts and four city-owned utilities, including Seattle City Light and Tacoma City Light.

WPPSS then decided to build five nuclear reactors as part of this plan. Three were authorized in 1969 and two more in 1974, which together were to generate up to 6,000 megawatts per day, a capacity equal to Grand Coulee Dam. Each 1,200 megawatt WPPSS nuclear plant was designed to produce more electricity than normally used by the city of Seattle.

The first three WPPSS plants—units #1, #2, and #3—were supposed to come on line in the mid-to-late 1970s and the last two units—#4 and #5—were to be completed in the 1980s. Each of the two sets of reactors was financed by different bond issues. But then the environmentalist movement intervened. The Nuclear Regulatory Commission, which is supposed to facilitate nuclear plant construction (but under Naderite control, actually hinders it) lengthened the construction time of the plants from 7 to 8 years to 10 to 14 years. Then starting in 1979, Federal Reserve Board chairman Paul Volcker more than doubled construction financing costs through his usurious interest rates. As a result, while the cost of the combined five units was slated to be a total of $4.1 billion when construction was first started in 1969, by the end of 1982, the environmentalists and Volcker had forced it up to $23.8 billion, a sixfold increase.

Starting in the late 1970s, and accelerating in mid-1980, month after month, the Seattle press, led by the *Seattle Post-Intelligencer*, denounced the nuclear reactor construction projects, repeating the formula of the Natural Resources Defense Council, which stated that the Northwest didn't need all this cheap energy and blaming the cost overruns, caused by the environmentalists and Paul Volcker, on "mismanagement." This effort was crowned by *Seattle Post-Intelligencer* reporter and raving environmentalist Joel Connelly, who in late March 1982 was assigned to cover WPPSS almost full-time, starting with his derogatory article about WPPSS, "The Year the Big Dream Died."

Wall Street got into the act. Howard Sitzer, a research analyst for Merrill Lynch, the firm that had been hired by WPPSS to underwrite WPPSS's bonds, issued a report on July 24, 1981 entitled "WPPSS at the Crossroads," which advised investors to get rid of the $2.0 billion bonds that had been issued thus far to finance WPPSS units #4 and #5. Eileen Titmuss, of the investment firm, Drexel Burnham Lambert, issued a similar report within weeks (the Lambert family is a top representative of the Belgian royal household). As the anti-nuclear Sitzer boasted in an interview June 22, "My report and that of Drexel Burnham killed any new bond issues for WPPSS units #4 and #5."

The bond rating services of Moody's and Standard and Poor's got into the act, manipulating a crisis—just as they did in New York City in 1975—by downgrading in successive steps WPPSS's bond rating, scaring off investors.

As the pressure mounted, in late fall 1981 the environmentalists got together with the help of massive media scare tactics to pass a referendum demanding that WPPSS or any other power authority in the region could not issue bonds—an inherent right of these authorities—without first having a referendum on each bond issue. That is, every time WPPSS wanted new funds it would have to go before an anti-nuclear-manipulated populace. When WPPSS appealed the referendum as unconstitutional, Joseph Califano, former Secretary of HEW and a big wig in the liberal wing of the Democratic Party, became the counsel for the environmentalists and the courts sustained the referendum.

*A LaRouche-Riemann econometric model study concluded that U.S. electricity generating capacity would have to increase sixfold over the next 10 years if the economy were to have the requisite energy supply to recover. The Washington Supreme Court decision means that the United States will experience blackouts the moment it actually increases real capital goods output. The environmentalists and Volcker have raised the costs for an average new plant from $120 to $160 per kilowatt in 1969, to $1,200 per kilowatt today.*

The outcome for WPPSS was a Shakespearian tragedy. In June 1981, a besieged WPPSS was forced to announce that it would mothball—i.e., never complete—the construction of units #4 and #5, even though they were 16 percent and 24 percent completed, respectively.

The fall-out from the latter two units began to affect the financing and viability of the first three units, which were financed under entirely different bond issues, issues which unlike those for units #4 and #5 were backed by the federal Bonneville Power Administration. In April 1982, WPPSS was forced to announce that it would mothball unit #1, even though the unit had been 60 percent completed at the time. Then on May 27 of this year, WPPSS was forced to announce that it would mothball unit #3, even though it had been 75 percent completed.

That leaves only unit #2, which is 98 percent completed, and scheduled to open in April 1984. But NRDC's Cavanagh brags, "The unit #2 can't sell its electricity in Washington, because there is no demand [due to the Volcker depression]. It will try to sell the electricity to California. My bet is that the plant will start up in early 1984, fail in its ability to sell its electricity, and close down for good."

Thus, more than $10 billion later, after more than 13 years in the works, the WPPSS will end up producing not even one kilowatt of nuclear-fueled commercial electricity.

Worse, in 1980 the U.S. Congress passed a little noticed law that set up the Northwest Planning Council, which was entrusted with the authority to set regional power planning and investment for all of the Northwest utilities. The Northwest Planning Council just issued a report in May of this year, entitled "Northwest Conservation and Electric Power Plan," of which NRDC's Cavanagh says, "We practically wrote it." The strategy of the plan, according to Cavanagh, is that cost-effectiveness replaces the traditional criteria of "reliability of electricity supply" as the key criteria for energy generation, and Cavanagh lied, "nuclear power is not cost-effective."

The plan "asserts that energy conservation is the dominant aim for the Northwest over the next 20 years, not building new power plants. The lion's share of investment will go for small-based generation." Cavanagh concluded, "This plan brings an end to smokestack industry. It takes a gigawatt to sustain one aluminum job. It takes one-thousandth of that amount to sustain some high tech company job. The Northwest will move away from the energy intensive industries." The Planning Council plan provides for a 0.9 percent increase in electricity generating capacity per year for the next two decades, in its worst case scenario, but if implemented this plan would actually mean negative growth.

Ironically, despite all the added-on costs, electricity is provided in Washington state via WPPSS through its utility retailers at 3 cents per kilowatt hour. In New York city, the cost is 16 cents per kilowatt hour, belying all the claims about WPPSS inefficency.

### The hit list for nuclear plants

According to the NRDC's Ralph Cavanagh, at the start of 1983, there were 91 nuclear power plants that were under construction. These 91 plants represented a potential of 80 to 90 gigawatts of newly installed electrical generating capacity by the year 1995. But, Cavanagh reports, 11 of these have been indefinitely deferred, meaning that they will never be built. Further, he said, "What the WPPSS case establishes as a precedent is that if a utility has nuclear power plants less than 40 percent completed, like units #4 and #5, *it is more cost-effective for the utilities to swallow the costs of the plants and not build them, rather than complete construction*. Currently, there are 37 plants around the country that are less than 40 percent completed, and these will be closed down on account of the WPPSS ruling." The hit list that the NRDC and the other leading environmentalist groups have drawn up for closing down plants includes:

- Four Tennessee Valley Authority plants including two in Mississippi and two in Tennessee;
- Three additional plants in Washington state;
- Three in Illinois;
- Seabrook Plant #2 in New Hampshire;
- One plant in Texas, two in the Carolinas, one in Georgia, one in Alabama, one in Indiana, and others.

Thus, of the 91 plants now being built, 48, or more than half, will never be completed under current circumstances, representing tens of billions of dollars of lost construction and lost energy. Furthermore, Cavanagh indicated many plants that are more than 40 percent completed might also be closed. The Nuclear Regulatory Commission's new requirements for excessively rigorous, phony "evacuation plans" for communities surrounding nuclear power sites might accomplish these shutdowns, as is indicated by the case of the Long Island Lighting Authority's Shoreham nuclear plant.

What this spells is catastrophe. In the five-year period since 1978, 80 coal-fired plants and 84 nuclear plants have already been cancelled. The cost for nuclear and coal plants indicates the problems: the environmentalists and Volcker have raised the costs for an average new plant—coal or nuclear—from $120 to $160 per kilowatt in 1969, to more than $1,200 per kilowatt today, a staggering 10-fold increase, seven times greater than the rate of inflation for other goods.

*No U.S. utility has put through a new order for a nuclear plant since 1978*. Moreover, since 1975, every one of the new orders on which construction was started has been cancelled. Thus, no post-1974 nuclear plant is still under construction.

The United States is entering what the *Executive Intelligence Review*'s LaRouche-Riemann econometric model team describes as a "thermodynamic heat death," meaning that even if credit were made available and cheap, the U.S. economy could not recover. America has a total of 650 gigawatts of installed electrical generating capacity of all types (13 percent is nuclear). At the rates of capital construction of power plants up until the WPPSS ruling, by 1993 utilities would have seen 20 to 25 percent of their plants become obsolete but would have replaced at most only 18 percent of them (120 gigawatts). This means that the installed electrical generating capacity in the United States would have shrunk by 2 to 7 percent during the next decade, stopping all industrial growth and interrupting real physical goods output, since for every 1.7 percent rate of growth of electricity capacity, there is a 1 percent growth in industrial output.

But the new ruling will mean that obsolesence will outstrip new production by 20 percent or more.

In achieving this result, which started with the 1973-75 Henry Kissinger-rigged oil crisis, the environmentalist fifth column has been aided by the leading U.S. proponents of the "nuclear freeze." For example, it was James Schlesinger, the current anti-beam weapon technology exponent, who was then Trilateral Commission President Jimmy Carter's Energy Secretary, who funded an NRDC "study" which purported to disprove the U.S. utility industry's assertion that the United States would need to keep to its 7.5 percent per year historical rate of electricity growth, or face power blackouts. The NRDC got a second grant from the Carter DOE for the same sort of project in 1980. These "studies" constituted a good part of the evidence considered by the Washington Supreme Court in its June 15 WPPSS ruling.

Beyond this, the NRDC, along with the Friends of the Earth and others, want to spread the Washington example as quickly as possible to every state to cut off any investment for energy, and instead emphasize conservation, windmills, passive solar heating, and so forth. Currently, Sen. Clairborne Pell (R-R.I.) and Sen. Robert Stafford (R-Vt.) are cosponsoring a bill in the U.S. Congress to create a New England Power Planning Council modeled exactly on the Northwest Power Planning Council, to constrict energy production in New England.

## What the White House will do

The WPPSS ruling has been greeted so far, with dead silence from the White House. Donald Hodel, President Reagan's energy secretary, was chief administrator of the Bonneville Power Administration, the federal authority that underwrote the construction of WPPSS units #1, #2, and #3, and the person who urged the 88 northwestern utilities to back the construction of WPPSS units #4 and #5.

Hodel has pulled together a roundtable of utility construction company executives who wrote a special study for the DOE, just released in June, entitled, "The Future of Electric Power Supply in America: Economic Supply for Economic Growth," which calls for a sizeable increase in coal and nuclear-fired electricity generating plant construction.

But the report seems as if it were issued in a political vaccum. Immediately after the WPPSS court ruling, Hodel said that he hoped that the "parties in Washington can solve the problem among themselves." As one source put it, "Hodel can't openly come out for government intervention in the case, because there are too many free-marketeers in the administration who would oppose him."

President Reagan must take immediate action as Commander-in-Chief to reverse the WPPSS disaster. Unless he does so, invoking war powers granted to the President, there may not be much of a U.S. economy left to defend.

# Soviet agents, witches, and 'peace' forums: strange happenings in the Democratic Party

by Graham Lowry

The drive by Soviet chief Yuri Andropov and the KGB to bring down the United States from within has produced a bizarre new phase of direct intervention into the 1984 U.S. presidential election. Democratic candidates Walter Mondale, John Glenn, Alan Cranston, Gary Hart, and Ernest Hollings were put on display for the national media Aug. 13 at a "peace" forum in Des Moines, Iowa, organized under the direction of Democratic Party assets of the KGB.

The Iowa candidates' forum, restricted to discussion of arms control and disarmament proposals, was sponsored by People Encouraging Arms Control Efforts (PEACE), an umbrella group for 65 Iowa organizations active in the KGB-backed "nuclear freeze" movement.

Established in February, PEACE is headed by Rep. Berkley Bedell (D-Ia.), and is intended specifically to centralize efforts to dominate the 1984 Iowa presidential preference caucuses with the KGB's agenda for disarming the United States. According to an aide to Bedell, "he recognized the unique opportunity Iowans have in terms of the Iowa caucuses to highlight the arms control issue. The party leadership is committed to getting the influence of the peace movement into the caucuses."

### The Moscow-IPS circuit and Peace Links

The Iowa presidential candidates' forum, however, is more significantly the outcome of a series of KGB interventions into American politics this year, beginning with the May 24-29 U.S.-U.S.S.R. Exchange Conference in Minneapolis, Minnesota. Jointly sponsored by Moscow's U.S.A.-Canada Institute and the left-wing Washington-based Institute for Policy Studies, the conference featured more than a score of Soviet and Russian Orthodox Church officials and, among their American counterparts, key figures involved in subsequent events on what amounted to a nationwide roadshow for the KGB.

The next major stop was the June 1-3 Women's Leadership Conference on U.S.-Soviet Relations in Washington, D.C., sponsored by the Committee for National Security. Besides four Soviet participants from the Minneapolis conference, the personnel overlap with the Washington event included Richard Barnet of IPS and the Committee for National Security; the committee's director Anne Cahn; and Betty Bumpers, president of Peace Links and the wife of Sen. Dale Bumpers (D-Ark.). Peace Links is a "sexual politics" organization which includes among its members the wives of at least 40 congressmen and governors across the country.

Evidence of Peace Links' connections to the KGB was presented on the floor of the U.S. Senate earlier this year by Sen. Jeremiah Denton (R-Ala.). Denton pointed out that two of the member organizations of Peace Links' National Advisory Council—Women's International League for Peace and Freedom and the Women's Strike for Peace—have been identified even by the U.S. State Department as Soviet-controlled front groups. The advisory council also includes the Committee for National Security.

If one peers more closely now at the Aug. 1[illegible] forum, something more than acres of corn meets the [illegible] keynote speaker was Admiral Gene Larocque of the Center for Defense Information, the military adjunct of Minneapolis conference cosponsor IPS. Larocque was paraded before a Soviet television audience in June to denounce the Reagan administration's "warmongering" attitude toward arms control.

In workshops preceding the arms control panel with the presidential candidates, the Iowa forum featured one on the psychological effects of nuclear weapons on children, led by the wives of Iowa congressmen Bedell and of Jim Leach, the nominal Republican who has been a leading figure in congressional efforts to stop President Reagan's defensive antiballistic beam weapons program from being implemented. Destroying that capability's potential for reversing the strategic and economic collapse of the United States was the constant and strident demand of the KGB and Russian Orthodox Church leaders on tour in the United States, as it has been from Moscow since President Reagan announced the new strategic doctrine on March 23.

Participants in the Women's Leadership Conference stop on the KGB tour included two Iowa members of Betty Bumpers's Peace Links: congressional wives Elinor Bedell and Elisabeth Leach, workshop directors at the Iowa forum

Another participant in the Women's Leadership Conference was Laurie Daschle, the executive director of Peace Links and the wife of Rep. Tom Daschle (D-N.D.).

Daschle himself has ties to environmentalist Jay Epstein, an attendee at a conference in Hanoi where Soviet officials mapped out a campaign of environmentalist sabotage against the United States. Shortly after his return, Epstein launched the dioxin scare which was used to virtually close down the town of Times Beach, Missouri. Daschle is also the number-two Democrat on the Albosta subcommittee in the House that launched the congressional investigation into "Briefingate," a campaign to destroy the Reagan administration initiated with KGB complicity following Averell Harriman's return from meeting Andropov in Moscow in early June.

Something was rotten in Des Moines—besides the candidates who appeared.

The KGB "peace" offensive in the United States is working on a timetable for a "hot autumn" here and in Europe. Mass civil disobedience is to be a cover for terrorism around the issue of the scheduled U.S. deployment of Pershing II and cruise missiles in Europe at the end of the year. The buildup in the United States is already under way, in collaboration with the Green Party in West Germany, which is backed by the KGB.

### 'Women's encampments'

Prime KGB assets for pulling off a "hot autumn" in the United States are the radical feminist groups currently staging "women's encampments" at military installations and defense research centers at such locations as Missoula, Montana; Kent, Washington; the defense technology complex in the Silicon Valley in California; Lawrence Livermore Laboratories in San Francisco; and the Seneca Falls Army Depot in upstate New York, where 3,000 encamped women have engaged in repeated acts of civil disobedience and infiltration runs designed to profile military security procedures.

NSIPS

*A witch's coven at a 1979 anti-nuclear encampment—the precursors of today's KGB-run 'peace' movement.*

The Seneca Falls encampment was organized by Donna Cooper, a national leader of the Communist Party's Women's International League for Peace and Freedom, further belying the FBI's claims this spring that it could find no evidence of KGB control over the U.S. peace movement. The Women's International League for Peace and Freedom is also a member organization of the National Advisory Council of Peace Links, and has been identified as a Soviet front group by even the U.S. State Department. The Soviet tour of the United States included a trip by some of the delegates to Seneca Falls as a final stop. A number of other organizations involved in Seneca Falls, such as the Fellowship of Reconciliation, are part of the base of support for Peace Links as well.

What is being unleashed with the KGB "peace" offensive is exemplified by the Seneca Falls women's encampment, where internal discipline is run by a lesbian organization called "Sinister Knowledge." Also participating in the camp are lesbian members of the terrorist American Indian Movement. One AIM grouping active there, Akwasasne Notes, is known to be involved in Wicca, a witchcraft cult which has been linked to the 1979-81 Atlanta child murders.

Radical groupings at the Seneca Falls camp are also believed connected to a U.N. "International Feminist Network" headquartered in Geneva, Switzerland, and Rome. Its quarterly magazine *Isis*, besides promoting lesbianism and witchcraft, devoted its spring issue this year to "Women for Peace," including a plug for the Women's International League for Peace and Freedom in the United States and coverage of the "model" for women's peace camps internationally at Britain's Greenham Common. *Isis* is perhaps unique in having a numbered Swiss bank account printed on the back of the magazine to which "readers" can send money.

The same issue of *Isis* included a participant's account of the Women's Pentagon Action in the fall of 1981, an attempt to surround the Defense Department Pentagon and block its entrances. "Slowly the four stages of our action emerged—mourning, rage, empowerment, defiance." For the "rage" element, "the drum tempo changed and the majestic rage puppet, in red, moved to the center. The next stage of the action began and we raged and chanted 'We won't take it,' 'No more war,' 'Take the toys from the boys.'. . . I wasn't prepared for how I was transformed by that ritual. It felt as if something reached down inside me, grabbed my tears and pulled them out of me. The feelings inside those other women touched the feelings in me and our rage built together."

As a state-level director for Betty Bumpers's Peace Links put it, "Betty concentrated particularly on women. She felt that women, as mothers and nurturers, could make people understand how dangerous the nuclear arms race really is, where other people with their statistics and their megatons and so forth could not."

## Target Seattle and the senatorial trip

The KGB's "educational" offensive is also set to gear up during the "hot autumn," with Soviet peace propaganda events up to two weeks long already set for a number of cities around the country. The model for many of these was first organized last year by "Target Seattle," an effort at mass manipulation of fears of nuclear war which brought 20,000 people into Seattle's Kingdome stadium last fall. Betty Bumpers made a special trip to Seattle to set up the personnel and staff organization for the project.

Target Seattle is staging a mammoth program entitled "Soviet Realities" from Oct. 29 to Nov. 6, prepared in consultation with Moscow's U.S.A.-Canada Institute. Featured speakers include this summer's KGB-tour coordinator Richard Barnet of the Institute for Policy Studies and Donald Kendall, chairman of Pepsico and a leading figure in the Council for New Initiatives on East-West Trade. The event's planners expect that Georgii Arbatov, head of the U.S.A.-Canada Institute, will head the list of Soviet speakers.

Target Seattle's program summary includes a series of forums with such titles as "Can We Live with the Soviet Union?," "What in the World Does the Soviet Union Want?" and "Who's Planning to Fight a Nuclear War?" After a day of workshops on Russia's "blood and soil" literature, the event concludes with "small-group discussions in 1,000 living rooms, churches, and other places." Seattle's schools will also be provided with "special curriculum units with emphasis on Soviet art and culture."

The entire Washington congressional delegation serves on the advisory committee of Target Seattle. The wives of three of the six representatives—Democrats Mike Lowry and Al Swift and Republican Rod Chandler—are members of Betty Bumpers's Peace Links.

For the last two weeks of August, Betty Bumpers will be in the Soviet Union, where she will meet with Yuri Andropov and other Soviet officials, as part of a delegation of nine Democratic senators and their wives, led by Claiborne Pell (R.I.). Her husband Dale Bumpers (Ark.), Pat Leahy (Vt.), Howard Metzenbaum (Ohio), Don Riegle (Mich.), Paul Sarbanes (Md.), James Sasser (Tenn.), Dennis DeConcini (Ariz.), and Russell Long (La.) will spend Aug. 15-31 in the Soviet Union, discussing "a wide range of issues including East-West trade, human rights, relaxing regional tensions, and arms control."

Will Andropov issue new marching orders for the "hot autumn"? He can certainly expect some attentive listeners. In addition to Betty Bumpers, Senate wives Marcelle Leahy, Shirley Metzenbaum, and Lori Riegle are all members of Peace Links. And given Andropov's instigation of the Briefingate assault on President Reagan during his June meeting in Moscow with Averell Harriman, another of his guests on the current Senate junket deserves special attention. Senator DeConcini has been the leading voice for initiating a Briefingate investigation in the Senate. Although thwarted in an attempt to gain committee approval before the August recess, DeConcini has vowed to press for it again in September—after he has conferred with Andropov.

## The WPPSS Case

# How Soviet assets in the 'peace' and ecology movements are wrecking the U.S. power grid

by Richard Freeman

The Soviet KGB has been caught running a conspiracy in the United States involving the U.S. environmentalist movement; Chemical Bank of New York, the seventh largest bank in the United States; and leading members of Congress and their wives to shut down the Washington Public Power Supply System (WPPSS), the largest megawattage supplier of electricity in the United States. The aim of the conspiracy is destruction of the nation's electricity production grid with the same efficency as a Strategic Bombing Survey bombing attack. The other two of the three key components of the U.S. industrial strength—manufacturing and transportation—are already in ruins.

The conspiracy was launched several years ago, when the National Resources Defense Council, which is the "green" side of the U.S. nuclear-freeze movement, joined by the *Seattle Post-Intelligencer* and several Lane Kirkland-controlled AFL-CIO units attempted to shut down five WPPSS nuclear power plants, which were in various stages of construction. This effort succeeded on June 15 when the Washington State Supreme Court made its ruling: 88 utility companies that had guaranteed $2.3 billion worth of bonds to allow WPPSS to construct nuclear power plant units 4 and 5 were no longer responsible for the payment of interest and principal on those bonds (see *EIR*, July 5).

Since WPPSS is an electricity wholesaler—that is, it has no independent income stream, but must sell electricity to the utilities who in turn sell it to customers—the court ruling left WPPSS with a $2.3 billion debt and no way to pay it off. In late July, WPPSS, unable to meet monthly interest payments on the units 4 and 5 bonds, was declared in default by Chemical Bank, the trustee for the units 4 and 5 bondholders. This represents the largest municipal bankruptcy in American history!

### 'A thing of the past'

An aide to Rep. James Weaver (D-Ore.), a fanatical environmentalist who supports the Global 2000 strategy to reduce the world's population by 2 billion people, reported Aug. 16: "As a result of the WPPSS default, I think that central generating stations, that is, enormous coal-fired plants and nuclear power plants, are a thing of the past. They're dinosaurs. Diversified sorts of energy, like cogeneration, solar energy, and so forth, done on a community-by-community basis, are the wave of the future."

But this was only the start of the conspiracy. In July, Sen. James McClure (R-Ida.), whose state is one of the four supplied with electricity by WPPSS—the others are Washington, Oregon, and Montana—introduced an amendment to a fiscal 1984 funding bill for the Department of Interior asking for federal emergency money to save WPPSS. The McClure amendment would grant the federal Bonneville Power Administration the authority to issue bonds through a new entity that would bear the costs of completing construction of WPPSS nuclear units 1, 2, and 3. Though these three units are not the subject of the June 15 Washington State Supreme Court ruling against WPPSS, that ruling and the subsequent declaration of WPPSS in default eliminated WPPSS's ability to raise funds for any of its units. Units 1, 2, and 3 are 75 percent, 98 percent and 60 percent completed respectively, but units 1 and 3 have already been mothballed because of intense environmentalist opposition.

McClure's amendment ran into a buzzsaw. A filibuster was led by Sens. Howard Metzenbaum (D-Ohio), Donald Riegle (D-Mich.), John Heinz (R-Pa.), and William Proxmire (D-Wis.), joined by Senate Majority and Minority Leaders James Baker and Robert Byrd, Representative Weaver, and Reps. Richard Ottinger (D-N.Y.), Donald Bonker (D-Wash.) and John Dingell (D-Mich.). Riegle and Metzenbaum are currently in the Soviet Union meeting with the Andropov leadership discussing the disarmament of the United States.

It turns out that the wives of WPPSS opponents Riegle, Heinz, Metzenbaum, Weaver, and Bonker are leaders of a group called Peace Links, which advocates that women around the world, on a person-to-person basis, stop war through "understanding." (See article, page 50.)

Senator McClure will hold hearings in Seattle on Sept. 7 to attempt to rally forces to save WPPSS. The opponents of

WPPSS plan to hold public hearings in Congress in October. The Reagan administration, in the person of Energy Secretary Donald Hodel, a former head of the Bonneville Power Administration who strongly backed construction of WPPSS nuclear units 4 and 5, is a particular target. "The fingerprints of Don Hodel in the WPPSS affair will be made large for all to see," Weaver's aide, David Jory, told an interviewer.

There is another level of Soviet conspiracy against WPPSS and the U.S. electrical power sector. On Aug. 3, two weeks after it declared WPPSS in default, Chemical Bank, the trustee for WPPSS bondholders, just launched one of the largest suits in the history of the United States, charging WPPSS and 500 other parties in the utility and nuclear plant construction industry with fraud, misrepresentation, and negligence.

The attorney for Chemical's suit is one Michael Mines. Mines, it turns out, is on the executive board of "Target Seattle," a peace organization that will submerge Seattle in events celebrating Russian "blood and soil" culture for five days between the end of October and the beginning of November of this year. The featured speakers at Target Seattle are Georgii Arbatov of the Moscow's U.S.A.-Canada Institute of the Soviet Union, and Marcus Raskin, one of the directors of the pro-terrorist Washington, D.C.-based Institute for Policy Studies, which helped sponsor the 33-city tour of top-ranking KGB officials through the United States earlier this year.

## Contractors and finances under fire

The Chemical Bank lawsuit coincides with 13 other lawsuits brought by "bondholders" of WPPSS securities, who are being coached by such environmentalists as Jim Lasar, head of the Seattle-based Fair Electric Rates Now (FERN).

Lasar told an interviewer Aug 16 that the suits against WPPSS and others are focused against, for example, the architectural firm of R. W. Beck, Jr., which is consulted on almost every nuclear power plant built in the United States. Lasar believes that Beck will be found guilty of the charge of fraud or of willful disrespect (negligence), because Beck recommended construction of WPPSS units 4 and 5 on the grounds that the plants were needed and would not be expensive (which is true, had high interest rates and environmentalists not intervened). Beck's conviction would make it perilous for any architectural firm to work on nuclear plant design. The lawsuits will also discourage investment firms from bringing to market new utility issues for coal or nuclear-fired plants, removing the financial underpinnings of the electric power industry.

The WPPSS rulings and lawsuits may be repeated throughout the country. Robert Lamb, a professor at the New York University Graduate School of Business specializing in municipal finance, reported Aug. 16, "The entire municipal bond market has been affected by the WPPSS July default on its bonds. Public power bonds are now comparable in yield to hospital bonds, which means they are paying 50 to 75 basis points more than they used to.

"There are going to be thousands of suits all over the country. The effects of the suits and the WPPSS ruling will increase the cost of public power dramatically," Lamb said.

The effect of all these rulings? Concluded David Jory: "I think you will find that there is not a chief executive officer or a president of a utility in this country who would sign an order to build a new nuclear plant."

This adds up to a financial Three Mile Island, a giant success for the attempt to sabotage nuclear power that was begun with the fake Harrisburg "disaster" of four years ago.

A municipal bond analyst at the Belgian royal household-controlled New York investment bank of Drexel Burnham Lambert, Eileen Austin, who played a role in 1981 in forcing the depreciation of WPPSS bonds, notes that there are 16 states which have "take or pay" contracts similar to those WPPSS had with the 88 utilities which were struck down. ("Take or pay" simply means that the contractor for power or any other service to be produced from building power plants must pay for the bonds to finance the building, even if the building is never completed.) These states have issued $14 billion worth of public power bonds on the take or pay basis.

Although in many of these states, the state supreme court or the state legislature has upheld the legality of "take or pay" contracts, Austen alleges, "I think that economics of the projects will supersede any legal agreement drawn up previously. You have to look at each project and see whether it is economic. In each case, I think that economics will take precedence in court rulings despite the original way the contract is written." Thus, contracts could be invalidated in each of the following states, potentially crippling their *existing* power facilities: Florida, Louisiana, South Carolina, Texas, Kansas, Massachusetts, Michigan, Nebraska, North Carolina, Vermont, Georgia, Missouri, Utah, California, Connecticut, and Minnesota.

Austen added, "I would advise you to look at the Texas situation. The city of Austin is suing the Houston Lighting and Power Company to get out of a 16 percent share that Austin has in the Houston Lighting and Power Company's South Texas nuclear plant. The way this ruling goes could have more importance than the WPPSS ruling."

In order to finance its legal expenses, which reached $20 million last year alone, and to pay interest on its bonds, WPPSS is asset-stripping itself to raise money.

WPPSS is trying to sell on the open market two wide reactor vessels crafted with special high-grade steel. The price of the two vessels was $203.5 million, but because there are no buyers for nuclear equipment, WPPSS may have to sell these vessels, into which went thousands of hours of skilled labor, for scrap metal. It is also ripping down and liquidating 1,000 miles of unused electrical cable, more than 100 miles of pipe, six electrical transformers, and thousands of tons of reinforcing bars. Such are the results of the Soviets' strategic bombing of America's utilities.

# Free enterprisers join attack on U.S. infrastructure

by Susan Kokinda in Washington, D.C.

The attacks on U.S. national security and energy infrastructure described in this issue of *EIR* are not solely the work of "left-wing" and environmentalist networks. A "fiscal conservative" and "libertarian" fifth column within Reaganite conservative strata has openly allied with the KGB's left-wing apparatus in an assault on "American System" policies of government-fostered economic development.

Over the past two years, a coalition has emerged among the nominally conservative National Taxpayers Union, the Heritage Foundation, various libertarian institutes, and the entire gamut of Naderite evironmentalist groups, to attack the Clinch River Breeder Reactor (CRBR), the Washington Public Power Supply System (WPPSS), the Tennessee Tombigbee waterway, the Garrison Diversion water project, and U.S. nuclear technology sales to India and Argentina. A leading spokesman for this alliance is Sen. Gordon Humphrey, a New Hampshire Republican who lets the KGB/British Fabian Society-run Heritage Foundation do what little thinking he purports to express.

This coalition has planned a fall offensive against nuclear energy as they set their sights on killing Clinch River for good and on sabotaging WPPSS financing and the nuclear sales to India. CRBR, which has already suffered serious setbacks under the lobbying of this coalition, must receive congressional approval for a new financing proposal, involving private-sector cost sharing, or run out of money on Sept. 30. The free enterprise/green coalition knows that unless construction is halted now, it will cost more to dismantle Clinch River than to continue to develop it, and see the September vote as the final battle. Votes on Clinch River have become increasingly close over the years, and the addition of free enterprise "conservatives" could tip the balance against the reactor in this, the final vote.

September decisions will occur on the McClure proposal for WPPS financing (see article, page xxxx) and on efforts to block the U.S. sale of nuclear-related materials to India.

## Adam Smith and Bukharin

Ideologically, it was inevitable that the free enterprise fiscal conservatives and their libertarian adjuncts would ally with left-wing anarchists and environmentalists. Both reject the conception of man as a creator engaged in the process of developing the universe, and reject the role of the nation-state in fostering that activity. The hedonistic anarchism of Adam Smith and the classic British economic liberals finds its full expression in the 19th-century anarchist Nikolai Bukharin and his successors in Moscow today.

But the alliance is more than ideological. The KGB has directly penetrated the "free enterprise" and fiscal conservative networks themselves, as the case of the Heritage Foundation shows.

For example, the National Taxpayers Union (NTU) had on its founding advisory board in 1969 MIT's Noam Chomsky, notorious at the time for his open ties to the KGB-infested draft resisters' movement and the radical antiwar effort. Other founders were A. Ernest Fitzgerald, the Pentagon whistle-blower, and Karl Hess III, both associated with the KGB-linked Institute for Policy Studies.

Using the long-standing scientific back channels of the Pugwash Conference/Bertrand Russell networks, the KGB has an asset in Sen. Gordon Humphrey's office as well. Humphrey's staff assistant for nuclear, energy, and water issues is Henry Sokolski, who was trained under Pugwash's Albert Wohlstetter at the Universtiy of Chicago. Sokolski, who has been known to claim responsibility for turning the Heritage Foundation against the breeder reactor, was given the mission of developing a "free enterprise" attack against President Eisenhower's "Atoms for Peace" program which he has carried forward to today's assaults of Clinch River and nuclear sales to India. On nonproliferation issues, Sokolski is a fellow traveler of the Pugwash *Bulletin of Atomic Scientists* networks who oppose the transfer of peaceful nuclear technology to developing nations.

The national security implications of this KGB/free enterprise nexus became clear in March, when the U.S. Army Corps of Engineers produced a study which warned that the nation's waterways and infrastructure could not sustain a two-front war mobilization. Office of Management and Budget Director David Stockman, who has used the "free enterprise" argument to slash government funding for national infrastructure, and his assistant Fred Khadouri (a former Ralph Nader lieutenant) ordered the study suppressed. With KGB penetration of the right wing becoming apparent, the dissemination of such studies would expose the answer to the question of who benefits from "free enterprise."

## 4

# The LaRouche-Riemann Computer Study

The economic consequences of crash development of beam-weapons are easily envisioned in the use of lasers in machining, welding, boring, drilling, cladding, and surface treatment of metals; the use of tuned lasers in chemical reactions; the use of controlled plasmas to speed up the process of steel-making 10,000-fold; and other applications now somewhere between the laboratory and the working factory.

In order to determine the impact of these new technologies on the economy, we ran two computer simulations. One was of the U.S economy during from 1939 to 1945. This was compared with a ten-year projection of the economy assuming a sizable infusion of productivity spinning off into the economy as a result of implementation of President Reagan's laser defense weapon program. For the purpose of this study we assumed the introduction of only four basic new technologies to the economy: laser metal-working, mass production of nuclear power reactors, MHD power-production, and plasma steel-making. Obviously this is a modest assumption. Under real conditions we can expect the proliferation of new technologies and unexpected solutions for what now represent severe bottlenecks.

*Computer simulation of laser technology's impact showed that the annual economic growth rate would reach 25 percent and productivity would double, with 4 million jobs added each year.*

These technologies are capable of increasing labor productivities up to ten-fold. If the Department of Defense budget is used to foster their introduction into the economy, and this is combined with a low-interest credit policy directed on behalf of investment in such technologies, we can expect the rapid adoption by civilian industry.

It is emphasized that the results reported below are experimental and do not constitute a complete analysis. They represent, however, successful work-in-progress toward an accurate computer simulation of the impact of such technologies. The validity of the numerical results is less important than the general direction of economic development indicated.

The most important conclusion is that the United States is still able to undertake a massive and self-financing expansion of its strategic military forces, concentrated in the defensive anti-missile weaponry discussed in the President's March 23, 1983, television address. The military expansion undertaken in context of an aggressive effort to disseminate such technologies into civilian industry and finance investment in these techologies cannot only pay for the defense cost many times over, but provide the basis for an industrial boom.

It is possible to repeat the conditions of rapid industrial output, employment, and productivity growth achieved during the Second World War, and to sustain such growth on the condition that energy-production technologies now in prototype or laboratory form become available for commercial use in scale after five years of such a program.

The point of departure for such a program is the concentration of available investment resources into the part of the economy that makes capital goods for the manufacture of capital goods. By rapidly enhancing the productivity of this sector, a "multiplier" of productivity increases is set in motion. There is a basic analogy to the manufacture of aircraft during World War II, in which productivity (by weight of airframe processed per worker per day) rose six-fold between 1940 and 1943. Productivities are now available, and subject to enhancement through large-scale R & D in coherent-radiation technologies, which can do the same for the basic machine-building sector of the economy.

Through such means, a revolution in productivity similar to the 1960–1980 revolution in electronics and communications can be established in basic industry. However, the application of such advanced technologies to basic industry "multiplies" the availability of inexpensive, advanced capital goods for all other sectors, drastically reducing the per-worker cost of investment, even while the capital-intensity of investment rises.

Several striking conclusions emerge from the projection. A relatively small margin of investment in the most-advanced available technologies for metal production and fabrication creates a wave of increasing productivity through the remainder of the economy, doubling overall productivity during a ten-year period, with a compound productivity growth rate of 7 percent.

The U.S. economy could, in very approximate terms:

1. Reach a 25 percent per year growth rate within five years
2. Add 4 million jobs per year, including 2 million in basic industry
3. Double its industrial productivity in ten years
4. Eliminate its trade deficit within two years
5. Raise per capita income by 5 percent per year
6. Accommodate a much higher level of military spending than the President has proposed, if the technological revolution implicit in beam weapons is applied with "World War II" methods of brute-force investment and directed credit.

Otherwise, one of the striking results of our computer-based study is that it only requires a relatively small margin of investment in these new technologies to revive the American economy in this way from a condition now close to thermodynamic "heat death."

The LaRouche-Riemann analysis also enabled us to specify where the growth pattern will run into real trouble: producing electricity itself. We must begin now to plan to replace conventional steam-turbine electricity generation with MHD (direct generation of electric current from a high-temperature charged coal or other plasma), and fusion power. Like metal working and steel production, the electric generating sector itself will have to undergo a revolution in new technologies.

Under the present depression conditions, growth of electrical consumption has plummeted to an all-time low of less than 2 percent per year, falling last year by 3 percent for the first time since the Second World War. This slow-down in the rate of growth of consumption, combined with environmentalist sabotage of nuclear power plant construction, has forced financially strapped utilities to cancel orders for new capacity and stretch out the construction time for plants which are already under construction.

This trend will have to be immediately reversed. Under present conditions, even a minimal recovery will result in overstretching the electric grid, threatening power failures. Historically, electrical capacity has had to grow by 1.7 percent to meet a 1 percent increase in industrial production. It is our estimate that under the projected program, total industrial output will be approximately quadrupled, thereby increasing the demand for electricity approximately six-fold, to 4000 gigawatts from the 660 gigawatts of present capacity.

Now this presents an unresolved bottleneck, since current estimates suggest a maximum 1000 gigagwatt capacity for nuclear power plants over the decade, even with the introduction of automation and the elimination of environmentalist constraints on production. If this constraint cannot be overcome, we will require massive construction of traditional coal-powered plants, combined with a crash program to develop MHD, which can double the efficiency of coal-powered plants to 70 percent.

The LaRouche-Riemann economic model is unlike any other computer simulation, because it studies the causal relationship between investment decisions and real production. While at first approximation, what is modeled is the capacity of the economy to provide a potential for new tangible investment, in actuality the model is constructed to capture the relationship between the flow of technology through the economy and the increase in productivity which this generates.

The model totally dispenses with the fraudulent categories of so-called Gross National Product. GNP reflects purely financial manipulations. The substitution of gambling resorts for working port areas is not reflected as a drop in GNP; on the contrary, legalizing drugs would immediately show up as a GNP increase in the magnitude of $200 billion. But a less obvious fallacy embedded in statistical data bases currently in use is the lumping together of categories that are functionally totally dissimilar—as is the case in the inclusion of Atari games in the electrical sector.

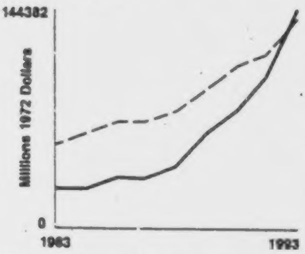
Investment in laser machining and related technologies was programmed to replace approximately half of the industrial procedures used in capital goods industries, with an expected rise in productivity from 300 to 500 percent. A realizable program would replace the entire stock of machine tools now employed in the machine-tool-building industry, about 140,000 units, with 27,000 computer-controlled laser machining stations, of a type now in use in prototype factories at the Illinois Institute of Technology, Battell Laboratories, and other research sites. This initial replacement of machine-building capital stock would take two years; these machines, in turn, will produce sufficient new laser machining stations—25,000 annually—to replace the machine tool stock of the rest of industry within five years. As the basic capital-goods sector replaces the capital stock of other sectors with the high-powered new technology, their productivity will rise upwards over time.

Investment in plasma steel-making and other metallurgy could at least double the productivity of the metals-producing sector over a decade. In fields other than capital-goods production, productivity increases will vary.

The consumer goods industry was assigned a productivity growth rate determined by the percentage of its capital stock replaced by the new technologies produced by the capital goods sector. The electric-power constraint makes the passage of the first three years of the program extremely difficult, with little margin for error. Investments other than in military production will have to be concentrated in primary capital goods and electrical power production in the first three years, leaving industrial wages relatively flat, but providing for an increase of jobs in the tangibles sectors of about two million per year, with perhaps an additional two million jobs added to this to meet the shortfall of engineers, administrators, teachers, and some necessary service personnel.

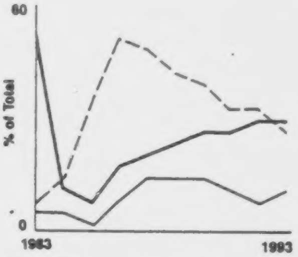
All of the above assumes that the U.S. can, through dirigistic credit policies, produce about $80 billion of industrial product in the first year of the program, which implies an industrial production growth rate in excess of 10 percent, rising most sharply in the initial period. That implies that the factories now idled can be made to function very fast under conditions of a national mobilization.

**1.**
**(——) Net Capital Investment and**
**(– – –) Goods-Producing Workers' Wages**



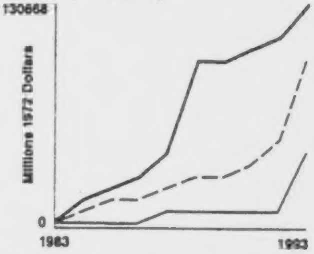
*The graph shows a tripling of goods-producing workers' wages measured by the tangible-goods component of wages) to $144 billion constant 1972 dollars by 1992. Net capital investment, however, which begins at less than a third of the wages level, rises to slightly exceed it over the ten-year projection period, indicating a dramatic shift in the capital-intensity of the economy. However, the graph demonstrates that there is no "trade-off" between improved productivity and capital intensity on the one hand, and employment on the other. Both rise dramatically.*

**5.**
**Distribution of Net Capital Investment by Sector**

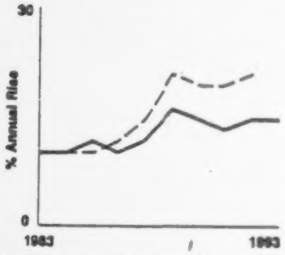


*This shows the required investment trajectory to accomplish the recovery program. Although the economic results in later years appear spectacular, the trajectory shown here is essentially the only one available to reach the later point of "take-off." The consumer goods industry begins with almost 60 percent of net capital investment, while the two capital-goods-producing sectors, primary and secondary, each have less than 5 percent. The trajectory shows that their places must be reversed in the initial phase, with about half of all net capital investment diverted to basic capital goods production. This then falls off slowly, as investment in secondary capital goods begins during the third year of the program, and investment in consumer goods production is revived. However, the productivities associated with the new investment in the secondary capital goods and consumer sectors are such that a relatively small portion of the total available investment capital meets the requirements of these sectors. A high level of investment in basic capital goods continues, accommodating military and high-technology export demand.*

**6.**
**Capital Investment in**
**(– – –) Primary Capital Goods**
**(——) Secondary Capital Goods**
**(▬▬) Electricity**

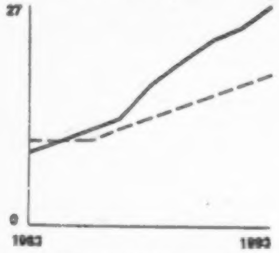


*The physical amounts of investment shown here (in constant 1972 dollars) are striking, principally because electricity undergoes a spectacular surge in investment during the sixth year of the program. This surge is not arbitrary; it represents the only trajectory compatible with the economy's growth possibilities, assuming that only conventional (boiler and turbine) electricity generation is available with no major improvement in efficiency. This demonstrates less a prediction of investment requirements than a "red light" warning that a major improvement in electricity-generation technologies is an indispensable requirement.*



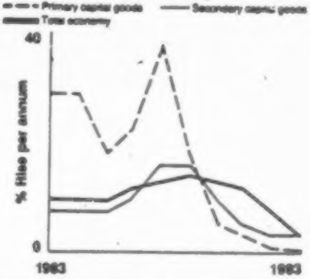
2.
(– – –) Growth Rate of Output,
(——) Goods-Producing Employment

*The graph shows an initial growth rate of both employment and output of about 10 percent: the real break occurs in the fourth year of the program, as new technologies become absorbed rapidly into the broad base of the economy. At this point the growth of total output is well in excess of total employment growth.*



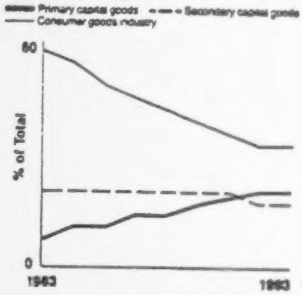
3.
Productivity of
(——) Capital Goods Production
(– – –) Total Economy

*At the starting point, the labor productivity of the basic capital-goods-producing sector (sector 4) is less than that of the total economy, largely because machine tool and other output now depends on a high proportion of skilled-labor inputs, rather than capital inputs. By the third year the productivity of the basic capital-goods sector outstrips the productivity of the total economy. The latter's productivity doubles over the projection period, while the capital-goods sector's productivity triples.*



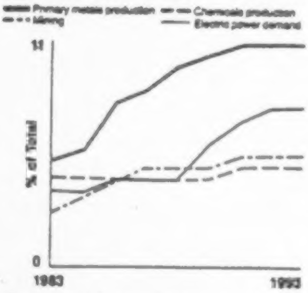
4.
Rates of Growth of Total Factor Productivity

*Although the growth of labor productivity is set by the operator of the LaRouche-Riemann model, the total factor productivity (production in excess of total physical production costs) is a result of the simulation. Clearly, the productivity growth of the total economy is driven by the initially spectacular growth rate of basic capital-goods production; as the new capital goods technologies replace old capital stock, the productivity effect spreads through the remaining economy.*



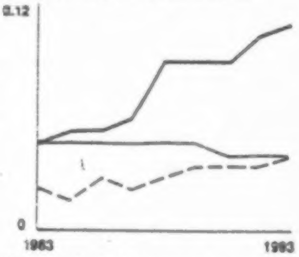
7.
Shares of Total Output by Sector

*As shown, the consumer-goods sector begins with almost 60 percent of total output, and falls gradually to a plateau at above 35 percent (which reflects a much higher absolute volume of output). Primary capital goods production, as a proportion of total output, rises from about 4 percent to over 10 percent, while the production of secondary capital goods remains stable at around 10 percent.*



8.
Shares of Total Output: Materials Processors

*The one significant increase in the first phase of the program is primary metals production, reflecting increased demand not only for capital goods but, more importantly, for power plant construction. In the second half of the simulation period, as growth takes off, electric power demand also rises dramatically as a share of total output. Chemicals production and mining do not show such steep rises. This is a necessary result.*



9.
(——) Reinvestment Profit
(– – –) Net Capital Investment
(——) Labor
as Percentage of Total Output

*The clear takeoff of the economy is shown in the fifth year of the simulation period, when reinvestment surplus grows from about 6 percent to about 9 percent of the total output.*

The CHAIRMAN. Thank you very much, Mr. Calney.

Is Mr. Joe Hommel present?

Thank you, gentlemen, for your testimony. I have no questions of members of this panel.

Senator GORTON. No questions.

The CHAIRMAN. Might I inquire of persons in the room who have not testified, if there are those present who would like to make a statement at this time.

It appears that there are no further statements to be made. This concludes the hearing at this time. Thank you very much, ladies and gentlemen, for your appearance.

Before closing, let me thank the young ladies who have been reporting every word here today and done so very efficiently without any interruptions at all. They have recorded all these proceedings, and I thank them very much for their diligent effort. Thank you, ladies.

The hearing is adjourned.

[Whereupon, the hearing was adjourned.]

# APPENDIX

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## Additional Material Submitted for the Record

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### WRITTEN TESTIMONY OF CONGRESSMAN SID MORRISON
### ON S. 1701
### BEFORE THE SENATE ENERGY AND NATURAL RESOURCES COMMITTEE
### SEATTLE, WASHINGTON
### SEPTEMBER 9, 1983

Mr. Chairman, Members of the Committee, thank you for inviting me to submit this testimony in support of S. 1701, legislation which imposes specific directives on the Bonneville Power Administration regarding the financing of the Washington Public Power Supply System's net-billed projects. I commend the Chairman for exercising outstanding leadership on this issue and I appreciate the supportive efforts of other Northwest Senators.

The legislation initiated by this Committee, S. 1701, and the amendment to the Interior Appropriations bill, Section 317, is vitally important to the energy and economic future of our region. I hope that the strong leadership of this Committee and its Chairman will prove instrumental in the passage of this legislative measure or any other which will allow the Northwest to solve our own problems regarding the Washington Public Power Supply System.

My immediate and direct interest in the Supply System is obvious. Three of the five Supply System projects are located on the Hanford nuclear reservation in my congressional district and the headquarters for the Supply System are in Richland. Literally thousands of my constituents have been and still are employed by the Supply System or related constractors. Most of my constituents also are served by local utilities who are participants ~~of WPPSS~~ in the Supply System and receive the majority of their electric power from the Bonneville grid.

I support S. 1701 and the report language/ on Section 317 which accompan~~ying~~ies H.R. 3363 as approved by the Senate Appropriations Committee. ~~which clarifies Section 317~~e. This legislation merely affirms the authority of the Bonneville Power Administration to make payments from current revenues for the construction costs of the net-billed projects. I should stress that many knowledgeable officials already believe BPA possesses this authority.

My fundamental reason for supporting S. 1701 is that I believe that the energy future of the Northwest demands that we complete ~~WPPSS~~ plant No. 3 and the other net-billed projects. BPA projections and the recent 20 year forecasts of the Northwest Power Planning Council suggest that our region must have all three net-billed projects to meet our future demands. The analysis of the Northwest Power Planning Council shows that if the region's demand for electricity grows at any rate above the medium-low growth forecast, all three of the net-billed projects must be completed. If these plants are not built, the region would need to construct additional higher cost power plants beyond those specified in the Council's plan.

Indeed, the underlying foundation of the Planning Council's plan is completion and operation of ~~WPPSS~~ the Supply System projects 1,2, and 3. These plants are even defined as part of the "Federal Base System" in Section 3 of the enabling legislation for the Planning Council, the Pacific Norhtwest Electric Power Planning and Conservation Act of 1980 (PL 96-501). It is clear to me that despite the current resource surplus the consensus of credible projections concludes that the region will need the build [redacted] projects 1,2, and 3 to fulfill our electricity requirements.

I also strongly believe that early completion of unit number 3 is most cost-effective and is in the best interest of the Northwest. Because the default issues surrounding WNP-4 and WNP-5 have spilled-over to the net-billed projects, securing additional conventional financing for WNP-3 has proved impossible. The plant is over 75 percent complete and represetns a valuable investment into the energy future of our region. Despite all the cries of [redacted] waste and mismanagement, WNP-3 is regarded by the Nuclear Regulatory Commission as one of the best reactors currently under construction. The reactor is techically advanced and incorporates outstanding safety features. The productivity during construciton has set records unmatched elesewhere in the industry and before construction was limited this past spring, [redacted] Project No. 3 was slightly ahead of schedule.

Further delay in completion of this plant would only compound the problems associated with the Supply System. First, delay of WNP-3 can only further delay WNP-1 which is currently 63 percent complete and is a preservation state but is expected to start-up again later this decade. [redacted] Project No. 1 is a net-billed project and the Northwest Power Planning Council estimates in all scenarios except the low forecast that the plant must come on-line in the early 1990s to meet our electrical generating capacity requirements.

Completion of WNP-3 and WNP-1 is more cost-effective than any other practical source of energy available to the Pacific Northwest. Again, according to the Planning Council, the costs to complete WNP-3 in levelized costs of energy are 25 mills and the costs for WNP-1 are 30 mills. These costs are substantially below the estimated 47 mills per kilowatt hour required for a new coal plants. The costs of other forms of energy, including renewables, small-head hydroelectric, and expanded conservation, are also more than the costs necessary to complete WNP-3 and WNP-1.

It is clear that completing ~~WPPSS~~ Project #3 as soon as practicable will result in the smallest cost to the ratepayer. Various cost estimates conclude that the longer we wait to complete this plant, the more money we will be forced to raise which will necessitate higher rates. Even bringing construction of WNP-3 back up to its full pace by later this year will result in ~~an in~~ higher completion costs of roughly $200-300 million. Bringing construction back up in 1984 could cost about $600 million and the additional costs of waiting till 1985 could reach $800 million. These cost figures underscore the importance of immediate action to secure additional financing for WNP-3.

S. 1701, in my opinion, represents the best option we have available to allow for completion of WNP-3. The legislation clarifies BPA's authority to enter into alternative financing agreements needed ~~to~~ for the construction of ~~WPPSS~~ No. 2 and No. 3. An appropriate entity established by a non-federal party pursuant to state law would obtain financing ~~form~~ from bonds, notes, or other "evidences of indebtedness." There are six explicit~~ly~~ conditions and limitation that must be adhered to before this financing authority could be used. The most important limitations require that the authority be used in a "prudent and business-like manner," and that new financing must be considered in relation to the effect on rates and to costs of other viable energy and financing options. Certain commercial banks have already indicated a willingness to elnd money for completion of WNP-3 if Bonneville is given the clarified authority provided in S. 1701.

S. 1701 is not a "federal bailout" of [redacted] the Washington Public Power Supply System. From the beginning of the Supply System troubles, I have steadfastly opposed direct federal intervention in any way that would expose the U.S. Treasury to a great financial liability for [redacted] the Supply System. I believe the problems associated with [redacted] the Supply System are regional and that the response addressed to solving [redacted] them should also be regional in scope. S. 1701, by clarifing existing authority, simply gives the Northwest the opportunity to solve our own problems.

The General Accounting Office concluded last month that BPA already has authority to finance from ratepayer revenues the completion of construction of [redacted] Project No. 2. (GAO, B-210929, August 2, 1983) S. 1701 merely amplifies this existing authority and allows BPA to secure financing for WNP-2 and WNP-3 through the private entity. The burden or payment will fall on the ratepayers of the Northwest, not on the federal government.

¶ Even the Reagan Administration through correspondence from the Deputy Secretary of the Treasury acknowledges that the intent of S. 1701 is to make the ratepayers bear all costs associated with WNP-3. The Treasury Department also has proposed a clarifing amendment,which has been embraced by the Chairman, which ensures that no federal funds, either in the form of borrowings from the Treasury or of appropriations, be used to complete WNP-2 and WNP-3.

Judging from the hearings held before this Committee on August 3rd, S. 1701 has a broad base of support. Besides support from BPA, the Reagan Administration, and ~~WPPSS~~ Supply System, the bill enjoys the support of the region's Governors and most of the Senators and House Members. The Northwest Power Planning Council also endorses the legislation as does organized labor throughout the region.

The only suggestion I would have regarding S. 1701 is that the report language ~~might~~ be ~~clafieid~~ clarified so that the financing authority outlined in the bill applies to all the net-billed projects. As written, the directive authority in the report language is limited to WNP-2 and WNP-3. I would hope that the financing authority described in S. 1701 would also be available to ~~WPPSS~~ Project No. 1 when construction of that plant ~~once that plant comes back up~~ is resumed later this decade. Since the legislation is intended to iclude the federal base resources, I encourage the Committee to clarify S. 1701 to ensure that all the resources Bonneville has already acquired, including WNP-1, be included.

Finally, I want to stress that S. 1701 addresses only part of the ~~WPPSS~~ problem. This bill does not address the ominous and complex def~~ulat~~ fault issues affecting WNP-4 and WNP-5. Responses addressing the default on these projects are now being developed by a blue ribbon panel appointed by two of the Governors and their suggestions should not be confused with the mandate and scope of S. 1701.

But specific to the net-billed projects. S. 1701 is a positive and constructive step in the right direction and I'm happy to lend my support to the bill. If we fail to approve this legislation and fail to complete the net-billed projects, we may end up with the worst of all possible results: a multi-billion dollar debt to be payed off by the ratepayer; three "dry holes"; and a shortage of electric energy in the 1990s.

NATIONAL TAXPAYERS UNION

FOR IMMEDIATE RELEASE

FOR FURTHER INFORMATION CONACT:
Katherine Kiggins (202)543-1300

## NATIONAL TAXPAYERS UNION OPPOSES BAILOUT PLAN FOR THE WASHINGTON PUBLIC POWER SUPPLY SYSTEM (WPPSS)

(Washington, D.C., August 3, 1983) — The National Taxpayers Union, a citizens' lobby which speaks for 120,000 taxpayers across America, opposes the thinly disguised federal bailout of the uncompleted projects 2 and 3 of the Washington Public Power Supply System (WPPSS).

The bottom line is that the federally-guaranteed Bonneville Power Administration (BPA) would pay the principle, interest, and related costs on new borrowings directly to the trustees and creditors of the WPPSS. At a time when BPA's current debt obligations to the federal government are not being met, this move could cost taxpayers and the U.S. Treasury dearly.

The BPA is wholly unsuited to guarantee a bailout. With a fiscal 1983 revenue shortfall of $350 million and an outstanding $6 billion commitment to the Treasury, the BPA admits that its only choice is "to reduce financial risk and not further encumber the revenue-generating capability of the federal system in the current circumstances." But that's just what the legislation before us will do. It will raise the BPA's financial exposure by at least $1 billion.

Supporters of the bill believe that the sale of power from these three plants will guarantee loan repayment. But, right now, the Northwest has a substantial 40 percent power surplus. Further, the Northwest Power Planning Council has identified an additional 32 billion kilowatt hours which already could be made available annually at an average cost of less than 2.2¢ per kilowatt hour. The sale of power generated by the two new plants under these conditions is hardly guaranteed. More likely, imprudent investors will come to Washington with their caps in hand for another federal bailout in a few years' time.

Lastly, the legislation does not address the two projects 4 and 5 which have already defaulted. What guarantee is there that the costs of this default will not be borne by investors of plants 2 and 3? This needs to be clarified.

Aside from the obvious environmental questions, this bill makes no economic sense at all. Saddling taxpayers with yet another bailout for bad investment policies is a dangerous course at a time when the government has overextended its financial commitments by at least $200 billion. We strongly urge that the Senators take this into account in the hearings.

NORTHERN PLAINS RESOURCE COUNCIL

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September 9,1983

Senator James McClure, Chairman
Committee on Energy and Natural Resources

Dear Chairman McClure:

Thank you for this opportunity to comment on S. 1701.

The Northern Plains Resource Council is an agriculturally based public interest group in Montana concerned about large scale industrial and natural resource development as it affects agriculture. NPRC has a membership of 1500 families.

We are writing to express our concerns about S. 1701.

The proposed legislation would allow the formation of an undefined entity with undefined financing parameters. As drafted the legislation is so open ended the entity could be anyone or anything, with the capability to float unlimited bonds for any duration at any interest rate. It is wholly inappropriate to write a blank check backed by Northwest ratepayers.

BPA rates have risen at alarming rates since 1979 to pay the WPPSS bill; furthermore, BPA is years behind in its payments to the federal treasury for the Columbia dams. It is imprudent to allow them to back additional expenditures on thermal projects of unproven cost-effectiveness. BPA is unsure if it will be able to finance and implement over 70 action items identified by the Northwest Power Planning Council in the Northwest Conservation and Electric Power Plan. These items which BPA agrees with must be the region's first priority. These items will put the Northwest on the path toward a cost-effective energy future providing more jobs and less environmental damage.

What the Northwest needs is a consensus solution to the WPPSS problem not another blank check. It may be worthwhile for the Congress to intervene at some time, this bill is not the necessary consensus solution.

Thank you for your consideration in this matter.

Sincerely,

Toni Kelley

Toni Kelley
NPRC Chairman

cc/ Montana Congressional delegation
Northwest Power Planning Council

**Progress Under Democracy**

*To conserve the water and power resources for the benefit of the people*

P.O. BOX 2832
WENATCHEE, WA 98801
(509) 662-5008

July 26, 1983

Henry Jackson
Russell Building, RM. 137
Washington, D.C. 20515

Dear Senator Jackson:

The Executive Committee of Progress Under Democracy and the below-listed ratepayer leaders of Washington State urge you to withdraw the "WPPSS Rider" (SEC. 317) that has been attached to the Interior Appropriations bill at the urging of the four investor-owned-utilities who own a 30% share of WPPSS project #3.

We feel the authority granted by this proposed amendment is contrary to the best interests of local public power in Washington state and would be a considerable detriment to the ratepayers of this state and the entire Northwest region.

This amendment represents an effort to circumvent all the existing legal, market, regulatory and political safeguards that have thus far protected people in the Northwest from a no-holds-barred assault on their incomes.

- Legally, this amendment tries to guarantee that public power ratepayers will pay any debt Bonneville has incurred or will incurr even if its net-billing arrangements are found invalid and illegal, as well they may be in light of the Washington State Supreme Court decision on WPPSS projects 4 & 5.

- Market-wise, despite the best efforts of these private utility companies, no investors will lend them money to complete this WPPSS project #3. The risk is too great! This amendment would force public power ratepayers to take the risks the bankers will not take... on behalf of their stockholders. The financing of WPPSS #3's completion is not only not cost-effective, but the fuel-loading of WPPSS plant # 2 has absolutely no economic rationale in a time of energy surplus and Bonneville revenue short-fall.

- Regulation of the investment practices of private electric monopolies, like Puget Sound Power & Light Company, is properly under the jurisdiction of the Washington Utilities and Transportation Commission. This amendment attempts to circumvent this regulatory protection and dump the nuclear mistakes of private utility companies on the region's public power ratepayers. If Congress establishes that ratepayers of federal based systems can be thrown into the breach to protect private utilities from the consequences of their own bad judgement and the realities of the marketplace, these four companies will only be the first in line to get their piece of the bail-out.

- Politically, the public in the Northwest region has succeeded in stopping payment on the blank check WPPSS was using. Now Congress, via this Rider, is proposing to issue another blank check in our names. However perverted WPPSS may have become, some political reigns remained in the hands of local PUDs where people in November, 1982, did chose new leaders committed to ending the WPPSS fiasco. This amendment would move the power to incur debt to a level where people can't reach it -- though they will still be getting the bills.

Let WPPSS, BPA and the IOU's make their case to the Northwest and its ratepayers. If the plants can be justified, we will build them. If they can't make their case to the courts, the ratepayers and the bankers, then Congress should not lend itself to the secret business of overriding democratic decisions in favor of Puget Power's balance sheet.

We urge you again to withdraw the rider.

Sincerely (Signed)

Dan Leahy, Chair
Progress Under Democracy
Wenatchee, Wa.

Ed Zuckerman, Executive Committee
Progress Under Democracy
Seattle, Wa.

Joe Hommel, Executive Committee
Progress Under Democracy
Olympia, WA.

Board of Directors
The Light Brigade
Seattle, WA.

George Wheeler, President*
Mason #3 PUD Owners Assn.
Shelton, WA.

Goldie Cashen, President
Pacific Cty Irate Ratepayers
Raymond, WA.

Trudy Podzaline, Chair
Tacoma Light Brigade
Tacoma, WA.

Belinda McMillen, Executive Committee
Progress Under Democracy
Ellensburg, WA.

Gary Lintz, Executive Committee
Progress Under Democracy
Lynnwood, WA.

Bill Shanahan, Executive Committee
Progress Under Democracy
Shelton, WA.

Gordon Rosier, President
FUSE
Everett, WA.

Rollie Wulff, President*
Clark County PUD Owners Assn.
Vancover, WA.

Sandi Pederson, President
Lewis Cty I Rate Ratepayers
Morton, WA.

Carol Dobyns, President
The Light Brigade
Seattle, WA.

Jim Lazar, Research Director*
PERN
Olympia, WA.

Darlene Spracklen, President*
LOWER
Airway Heights, WA.

Larry Caldwell, Co-Director*
Hanford Oversight Committee
Richland, WA.

Stanley Mettler, Board member*
Peace and Justice Coalition
Chelan, WA.

Tom Lineham, City Councilman*
City of Ellensburg
Ellensburg, WA.

Benita Helseth, President*
League of Women Voters
Lake Stevens, WA.

John Whitecar
Okanogan, WA.

Burke Long, IWA Representative*
to Mason #3 Advisory Committee
Shelton, WA.

Robert Henry, Chair
Concerned Ratepayers Assn.
Kennewick, WA.

Joe Bissonette, President*
Chelan PUD Owners Assn.
Wenatchee, WA.

Cheryl Higgins, Vice President*
Cowlitz Cty Real Irate Ratepayers
Longview, WA.

A.W. Sherrard, President*
Douglas Cty Rocky Reach Refugees
East Wenatchee, WA.

Dave Underhill, Treasurer*
Progress Under Democracy of
Kittitas Cty, Ellensburg, WA.

Ken Dolbeare, Political Economist*
Evergreen State College
Olympia, WA.

Beth Stacy, Member Matlock Grange*
Matlock, WA.

cc: NW Congressional Delegation
John Dingell, Ch., House Energy and Commerce Committee
Richard Ottinger, House subcommittee on Energy Conservation
Washington PUD Association, Seattle
Public Power Council, Vancover
WPPSS Full Board of Directors
Peter Johnson, BPA Administrator
Governor John Spellman
Alex Radin, American Public Power Association
Bob Bergland, NRECA, Washington, D.C.
Dan Evans, Ch., NW Power Planning Council
Charles Luce, "Oregon/Washington 'Blue Ribbon' Panel"
Ruth Caplan, Environmental Action

* Organizational affiliation for identification purposes only

**SERVICE EMPLOYEES INTERNATIONAL UNION, AFL-CIO, CLC**

*"ORGANIZING THE UNORGANIZED"*

**LOCAL 38**

1322 FAWCETT AVENUE ● TACOMA WASHINGTON 98402 ● PHONE: 572-6410

*TERRY L. BROSSETT, PRESIDENT* *PATRICIA A. ROSE, OFFICE MANAGER*

September 13, 1983

Gary Ellsworth
Committe on Energy and
Natural Resources
United States Senate
Room 358
Dirksen Senate Office Building
Washington D.C. 20510

Dear Mr. Ellsworth:

I am writing on behalf of the Service Employees Council #14 representing over twenty thousand members in Washington, Oregon and Idaho regarding the McClure Amendment to build WPPSS Nuclear Plant #3. The Council categorically opposes this Amendment.

We are opposed to the proposed refinancing scheme for a variety of reasons:

1. New bonds to complete #3 will create a capital outflow that will further injure the Washington economy by taking out vital investment monies for jobs here.
2. The Amendment if passed would shift all the risk for continued financing to the ratepayers. We represent employees in the low paying service industries. The impact of higher rates severly harms our membership.
3. The Council has consistentlysupported the conservation provisions of the Northwest Power Act twenty year plan. Therefore, we cannot see any justification for completing a project that will generate power at two to four times the cost per kwh of conservation measures.

There are, of course, other more detailed reasons for opposing the McClure Amendment, but to list them here would be overstating the case. Simply be advised, that the labor movement in the Northwest is not united on this issue. Those of us representing the Service trades believe the economy of Washington is much better served by creating jobs through conservation not construction.

Sincerely,

Terry L. Brossett
President

TRI-CITIES
CHAMBER of
COMMERCE
P.O. BOX 2322
TRI-CITIES, WA 99302

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KENNEWICK, WA 99336

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POSITION PAPER
SENATE COMMITTEE HEARING ON S. 1701
September 9, 1983

The Tri-Cities Chamber of Commerce wishes to have its statement included in the record of the Senate Hearing on S. 1701 and related legislation which is to be held in Seattle on September 9, 1983. Our Chamber comprises about 800 members representing the business and professional leadership in Pasco, Kennewick, and Richland, Washington--commonly known as the Tri-Cities--with a combined population of about 115,000.

The Tri-Cities Chamber supports congressional legislation which provides a responsible mechanism to assure the completion of Washington Public Power Supply System nuclear plants numbers 1, 2 and 3.

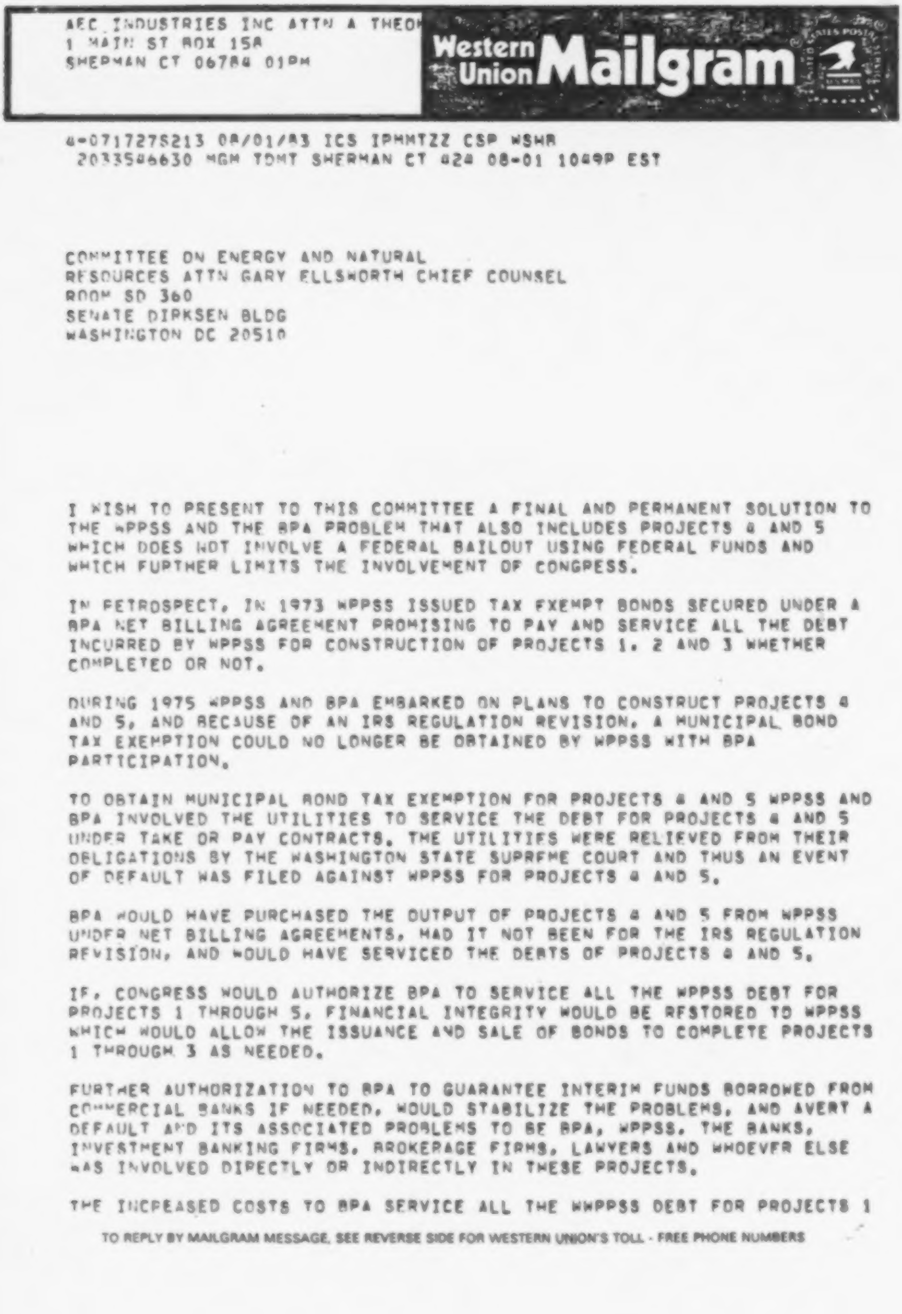
As we see it, such congressional action is a viable and highly preferable alternative to a proliferation of legal squabbles that can only have one of two undesirable outcomes: either the courts will order construction to continue, with Bonneville Power Administration being forced to "pay as you build" by raising BPA rates immediately...or construction will shut down with potentially disastrous results on costs and supply. In addition, the Northwest Power Planning Council has warned that mothballing of unit 3 presents a substantial risk that the plant might never be finished at all--resulting in yet another multi-billion dollar "dry hole" which, beyond any doubt, electric ratepayers would have to pay for.

There is no question that the power from these plants is needed. That has been made clear in correspondence and testimony from the Northwest Power Planning Council. Although there is presently a temporary power surplus in the region, the electricity the plants will generate can be melded into regional power resources and sold to the Southwest, thereby assisting our region in retiring the tremendous debt while providing needed resources.

We do not ask for, or expect, any "federal bail-out" by taxpayers. Conventional long-term financing at reasonable rates can be obtained, we are told, if only Congress will take action to stimulate it.

The Chamber believes congressional legislation to permit completion of these plants is very desirable. We also believe it should be structured to minimize short-term impacts on ratepayers who have already experienced significant escalation of rates. The Chamber also believes such legislation should be more specific about the structure and authority of the entity which would be created to finance completion of the plants.

Thank you for this opportunity to present our views on this issue of vital importance to our community and to the region.



AEC INDUSTRIES INC ATTN A THEO
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SHERMAN CT 06784 01PM

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COMMITTEE ON ENERGY AND NATURAL
RESOURCES ATTN GARY ELLSWORTH CHIEF COUNSEL
ROOM SD 360
SENATE DIRKSEN BLDG
WASHINGTON DC 20510

I WISH TO PRESENT TO THIS COMMITTEE A FINAL AND PERMANENT SOLUTION TO THE WPPSS AND THE BPA PROBLEM THAT ALSO INCLUDES PROJECTS 4 AND 5 WHICH DOES NOT INVOLVE A FEDERAL BAILOUT USING FEDERAL FUNDS AND WHICH FURTHER LIMITS THE INVOLVEMENT OF CONGRESS.

IN RETROSPECT, IN 1973 WPPSS ISSUED TAX EXEMPT BONDS SECURED UNDER A BPA NET BILLING AGREEMENT PROMISING TO PAY AND SERVICE ALL THE DEBT INCURRED BY WPPSS FOR CONSTRUCTION OF PROJECTS 1. 2 AND 3 WHETHER COMPLETED OR NOT.

DURING 1975 WPPSS AND BPA EMBARKED ON PLANS TO CONSTRUCT PROJECTS 4 AND 5, AND BECAUSE OF AN IRS REGULATION REVISION, A MUNICIPAL BOND TAX EXEMPTION COULD NO LONGER BE OBTAINED BY WPPSS WITH BPA PARTICIPATION.

TO OBTAIN MUNICIPAL BOND TAX EXEMPTION FOR PROJECTS 4 AND 5 WPPSS AND BPA INVOLVED THE UTILITIES TO SERVICE THE DEBT FOR PROJECTS 4 AND 5 UNDER TAKE OR PAY CONTRACTS. THE UTILITIES WERE RELIEVED FROM THEIR OBLIGATIONS BY THE WASHINGTON STATE SUPREME COURT AND THUS AN EVENT OF DEFAULT WAS FILED AGAINST WPPSS FOR PROJECTS 4 AND 5.

BPA WOULD HAVE PURCHASED THE OUTPUT OF PROJECTS 4 AND 5 FROM WPPSS UNDER NET BILLING AGREEMENTS, HAD IT NOT BEEN FOR THE IRS REGULATION REVISION, AND WOULD HAVE SERVICED THE DEBTS OF PROJECTS 4 AND 5.

IF, CONGRESS WOULD AUTHORIZE BPA TO SERVICE ALL THE WPPSS DEBT FOR PROJECTS 1 THROUGH 5, FINANCIAL INTEGRITY WOULD BE RESTORED TO WPPSS WHICH WOULD ALLOW THE ISSUANCE AND SALE OF BONDS TO COMPLETE PROJECTS 1 THROUGH 3 AS NEEDED.

FURTHER AUTHORIZATION TO BPA TO GUARANTEE INTERIM FUNDS BORROWED FROM COMMERCIAL BANKS IF NEEDED, WOULD STABILIZE THE PROBLEMS, AND AVERT A DEFAULT AND ITS ASSOCIATED PROBLEMS TO BE BPA, WPPSS, THE BANKS, INVESTMENT BANKING FIRMS, BROKERAGE FIRMS, LAWYERS AND WHOEVER ELSE WAS INVOLVED DIRECTLY OR INDIRECTLY IN THESE PROJECTS.

THE INCREASED COSTS TO BPA SERVICE ALL THE WWPPSS DEBT FOR PROJECTS 1

TO REPLY BY MAILGRAM MESSAGE, SEE REVERSE SIDE FOR WESTERN UNION'S TOLL - FREE PHONE NUMBERS

THROUGH 5 WOULD BE PASSED ONTO THE UTILITIES. WHETHER THE UTILITIES COULD PASS THE INCREASED COST OF ELECTRICITY TO THE RATE PAYERS WOULD BE A LOCAL PROBLEM TO BE RESOLVED BY THE STATE PUBLIC UTILITIES COMMISSION.

THUS MINIMAL PROGRESSIONAL INVOLVEMENT WOULD BE REQUIRED, AND NO FEDERAL BAILOUTS WITH FEDERAL FUNDS WOULD BE INVOLVED, THE PROBLEM WOULD THEN BE LOCALIZED IN THE PACIFIC NORTHWEST.

IF I CAN BE OF FURTHER ASSISTANCE KINDLY FEEL FREE TO CALL UPON ME.

SINCERELY,

ALEXANDER THEOHAROUS ATTORNEY AT LAW SHERMAN CONNECTICUT 06784
203-354-5772

22:52 EST

MGMCOMP